

Appropriations for FY2004: VA, HUD, and Independent Agencies

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Summary

On January 23, 2004, the Consolidated Appropriations Act, 2004 (P.L. 108-199) which combines several appropriations bills into one was signed by the President. Division G of this omnibus bill provides appropriations for the Departments of Veterans Affairs (VA) and Housing and Urban Development (HUD), and several independent agencies, including the Environmental Protection Agency (EPA), the National Aeronautics and Space Administration (NASA), and the National Science Foundation (NSF). This division of the bill, popularly referred to as “VA-HUD,” provides \$128.2 billion in appropriations, comprised of \$32.7 billion in mandatory spending (mostly for VA cash entitlements), \$91.3 billion in discretionary funds, and \$4.2 billion of advanced appropriations for FY2005. The Administration had requested a total of \$126 billion for programs funded through the VA-HUD bill, including \$89.4 billion in new, discretionary funds. The House had recommended \$126.9 billion; the Senate had approved \$128.2 billion.

P.L. 108-199 restructures the accounting for VA medical care costs, and adds \$1.3 billion to the Administration’s request for medical services, bringing the total for FY2004 to \$27 billion, a \$2.6 billion increase over the level provided for FY2003. Mandatory spending for VA entitlements is projected to increase \$1.1 billion.

The bill signed by the President approves a net appropriation of \$31.4 billion in spending available for HUD for FY2004, an increase of \$408 million over FY2003 funding. The Section 8 Housing Certificate Fund will receive \$19.4 billion, paid in part by \$2.8 billion in rescissions from previous years. The Administration had requested \$16.7 billion, offset by rescission of \$300 million. Under the Administration’s proposed budget, the Section 8 program would have been split into two components. The largest part, a new *Housing Assistance for Needy Families (HANF)* program initiative (H.R. 1841/S. 947) would have converted the existing Section 8 Housing Choice Voucher program into a block grant to the states; the Section 8 project-based rental assistance program would remain largely unchanged.

The omnibus bill provides \$8.4 billion for EPA for FY2004, compared to the request for \$7.6 billion. It approves NASA funding of \$15.5 billion for FY2004, the amount requested and about \$200 million more than provided for FY2003. NSF will receive \$5.6 billion in FY2004, about \$100 million more than requested and about \$300 million more than provided for FY2003. The Administration had requested \$598 million for FY2004 for the Corporation for National and Community Service, the parent agency administering AmeriCorps. The House recommended \$480 million; the Senate \$484 million. Conferees provided \$584 million. In previous years, the House bill has recommended that the Corporation not be funded, with the Senate restoring funds in its bill, and conferees approving amounts nearer to the Senate recommendation. FY2004 amounts in this report do not include effects of the .59% across-the-board reduction in most discretionary accounts called for in P.L. 108-199. This is the final update of this report

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Most Recent Developments

Consolidated Appropriations Act, 2004 becomes law

On January 23, 2004, the President signed H.R. 2673 (P.L. 108-199). The bill provides for \$128.2 billion in FY2004 appropriations for VA, HUD, and Independent Agencies, including \$32.7 billion in mandatory spending, \$91.3 billion in discretionary funds, and \$4.2 billion of advanced appropriations for FY2005. The Senate approved the conference report on the bill on January 22, 2004, and the House, on December 8, 2003.

Conferees Reach Agreement

On November 25, 2003, conferees on several bills combined their efforts (H.Rept. 108-401) and approved the consolidated appropriations bill, H.R. 2673.

Senate Approves its Version of H.R. 2861

On November 18, the Senate approved H.R. 2861, as amended by the text of S. 1584, the VA-HUD appropriations bill reported (S.Rept. 108-143) in the Senate, September 4, 2004. The Senate version called for \$124 billion in total funds.

House Completes Action on FY2004 VA, HUD, Independent Agencies Appropriations Bill (H.R. 2861;

H.Rept. 108-235)

On July 25, 2003 the House passed H.R. 2861 (H.Rept. 108-235) appropriations for FY2004, calling for \$122.7 billion in total funds.

FY2003 Consolidated Appropriations Act signed by President on February 20, 2003 (H.J.Res. 2;

P.L. 108-7[http://www.congress.gov/cgi-lis/bdquery/R?d108:FLD002:@1\(108+7\)\)](http://www.congress.gov/cgi-lis/bdquery/R?d108:FLD002:@1(108+7)))

Administration submits FY2004 Budget on February 3, 2003

Status

Table 1. Status of VA, HUD and Independent Agencies Appropriations, FY2004

Subcommittee markup		Comm. markup H.Rept. 108-235	Passed House	Comm. markup S.Rept. 108-143	Passed Senate	Conference Reported H.Rept. 108-401	Conference Report		Signed P.L. 108-199
House	Senate						House	Senate	
07/15	—	07/21	07/25	09/04	11/18	11/25	12/08	01/22	01/23

Total Appropriations Enacted for FY2003 and Requested for FY2004 for VA, HUD, and Independent Agencies

Table 2. Summary of VA, HUD, and Independent Agencies Appropriations, FY2003-FY2004

(budget authority in billions)

Department or Agency	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Department of Veterans Affairs	58.100	60.719	60.721	62.024	62.019
Department of Housing and Urban Development	35.204	35.929	36.031	36.086	35.612
Environmental Protection Agency	8.079	7.631	8.005	8.183	8.411
National Aeronautics and Space Administration	15.339	15.469	15.540	15.339	15.469
National Science Foundation	5.310	5.481	5.634	5.586	5.611
Other Independent Agencies	.920	1.116	1.011	1.026	1.120
Advance appropriations (HUD)	4.200	4.200	4.200	4.200	4.200
Grand total, this cycle	127.204	130.545	131.144	132.444	132.444
Total (this bill, w/o adv. approp.)	123.004	126.345	126.943	128.244	128.244
adjustments; advance approp.	-4.204	-4.203	-4.203	-4.203	-4.203
Total: VA, HUD, and Independent Agencies (net)	123.004	126.345	126.943	128.244	128.244
<i>mandatory</i>	<i>31.577</i>	<i>32.707</i>	<i>32.707</i>	<i>32.707</i>	<i>32.707</i>
<i>discretionary</i>	<i>87.223</i>	<i>89.435</i>	<i>90.033</i>	<i>91.334</i>	<i>91.334</i>

Source: H.Rept. 108-401.

Note: Totals will not add due to rounding at agency level. Totals are net, after incorporating supplementals, rescissions and other reductions, and advance appropriations. FY2004 amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

Resolutions Continue Spending at FY2003 Levels

Because work on FY2004 appropriations for VA, HUD, and Independent Agencies was not completed at the beginning of the fiscal year, October 1, 2003, Congress passed, and the President signed a series of continuing resolutions. The last of these resolutions, P.L. 108-135, provided authority for those departments and agencies to spend at a rate not to exceed the rate available to them during FY2003. The authority of P.L. 108-135 expired January 31, 2004.

Title I: Department of Veterans Affairs

Spending for VA Programs

FY2004

In passing H.R. 2861, the House approved the \$60.7 billion the Administration requested for the Department of Veterans Affairs (VA) for FY2004, including \$32.7 billion for VA cash benefits, and \$28 billion for discretionary funding. The House bill restructured the funding for the Veterans Health Administration (VHA) into four accounts for medical care, medical research, medical administration, and prosthetic research, providing a total of \$25.7 billion for those functions, an amount equal to the Administration request. The final bill follows the House account structure while providing most of the Senate amount at \$27 billion.

In addition, H.Rept. 108-235 took issue with VA for submitting the FY2004 budget request using an appropriations structure that the Department had not had approved by the House Committee on Appropriations. The report contains language instructing VA to comply with existing justification requirements in “the traditional appropriations account structure” rather than submit a new structure to replace the structure preferred by the Committee. The report goes on to direct the Department to “refrain from incorporating ‘performance-based’ budget documents in the 2005 budget justifications....”

FY2003

The President requested \$56.94 billion for the Department of Veterans Affairs for FY2003, according to congressional estimates contained in the conference report (H.Rept 108-10) to H.J.Res 2, the consolidated appropriations bill for FY2003 (P.L. 108-7). P.L. 108-7 provided \$58.1 billion for VA programs for the fiscal year ending September 30, 2003, including \$31.58 billion in mandatory spending for VA entitlements, and \$26.5 billion for discretionary programs, \$23.5 billion of which is for medical care for veterans.

Table 3. Department of Veterans Affairs Appropriations, FY2000-FY2004 "lf D (budget authority in billions)

FY2000	FY2001	FY2002	FY2003	FY2004
\$46.04	\$47.95	\$52.38	\$58.10	\$62.02

Source: Figures for FY2000-FY2002 are from administration budget submissions of subsequent years; FY2003 and FY2004 are from H.Rept. 108-401. Actual final spending levels for any fiscal year include all supplemental appropriations or rescissions. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year.

VA Cash Benefits

Spending for the VA cash benefit programs is mandatory, and the amounts requested in the budget are based on projected caseloads. Eligibility requirements and benefit levels are specified in law. While the number of veterans is declining, VA entitlement spending, mostly service-connected compensation, pensions, and readjustment (primarily education) payments, reached \$23.4 billion in FY2000, \$25.7 billion in FY2001, \$28.4 billion in FY2002, \$31.6 billion in FY2003, and is projected to reach \$32.7 billion in FY2004. Much of the projected increases in FY2001-FY2004 result from cost-of-living adjustments for compensation benefits, and from liberalizations to the Montgomery GI Bill, the primary education program.

Compensation and Pensions

The compensation program pays benefits to living veterans who have suffered a loss or reduction in earning capacity as a result of a condition traceable to a period of military service, and to the dependent survivors of certain veterans. The VA pension program is a means-tested benefit for permanently disabled (from a condition unrelated to their military service) veterans of war-time service, whose incomes and assets fall below certain levels. After taking into consideration the financial circumstances and dependents of eligible veterans, the pension payments, along with countable income, are intended to bring their total incomes to the basic targeted amounts.¹ Given the broad availability of other sources of income, including Social Security, program caseload is diminishing, as fewer veterans have incomes below the categorical levels.

During FY2004, VA estimates that about 2.8 million veterans will draw an average of \$783 in monthly compensation for service-connected disabilities. Pension payments for about 554,000 totally disabled, veterans (and their eligible survivors) of wartime service, whose income and assets fall below certain levels, will average about \$508 monthly.

Readjustment

Following a tradition going back to the beginnings of the Republic, near the end of World War II Congress enacted a series of programs to assist veterans in their readjustment to civilian life, and to help the national economy adapt to the influx of demobilizing armed forces. The GI Bill has entered the national lexicon as an example of federal responsibility for this readjustment responsibility, and many citizens continue to refer to the current array of programs by that historical name. Indeed, the largest current program providing readjustment education benefits is named the Montgomery GI Bill program, for its congressional sponsor and the heritage it brought into the age of an all-volunteer military service.

Without conscription to fill the ranks of active duty armed services, the inducements to potential recruits must be sufficient to attract them to enlist. The Montgomery GI Bill provides recruits with the promise of educational assistance when they separate, and the amounts that eligible participants receive has climbed significantly over the last few years. The previous payment of \$800 per month for 36 months for a participant completing a three-year enlistment rose to \$900 per month on October 1, 2002, and to \$985 per month on October 1, 2003.

During FY2003, about \$2.3 billion in total payments for education payments went to 326,000 active duty personnel and veterans, 82,000 reservists, and 52,000 dependents. About 160,000

¹ For 2004 the annual basic level for an eligible single veteran is \$9,894; with one dependent, \$12,959; and each additional dependent, \$1,688. Additional amounts are available for eligible veterans who are housebound, or in need of aid and attendance.

veterans received other forms of tuition assistance, 65,000 received vocational assistance, and 81,000 received assistance with preparing for and taking licensing and certification tests.

Medical Care

VA operates the nation's largest integrated health care system, with 158 hospitals, 133 nursing homes, 42 residential rehabilitation treatment programs, 867 outpatient clinics, 73 home health-care programs, and 206 readjustment counseling centers. During FY 2002, VA provided care to 4.7 million unique patients, with 745,000 inpatient episodes and over 47 million outpatient visits.

VHA estimated that by the end of FY2003 it would experience an annual growth rate of 6.2% as the number of unique patients treated reached approximately 5 million. Outpatient visits are rapidly increasing. The total number of such visits reached 47 million during FY2001, and was projected to increase by 2.3 million to 49.2 million. Veterans who are provided outpatient care average around 12 visits per year.

According to VA data, the daily inpatient caseload for FY2003 was estimated to be 57,116, and is expected to decline to 56,842 patients by the end of FY2004. There is a projected caseload decline in all service units except for two categories, acute care and rehabilitative care. Acute care patients have increased because of the larger number of veterans who are seeking VA medical services, and while the total number of acute care cases is expected to increase by almost 15,000 over the last year, the average daily census for acute care should decline slightly as a result of a shorter average length of stay. The aging of the veteran population, and the congressional commitment to increase the capacity of VA to serve this population, means that the number of patients receiving rehabilitative care will increase during FY2004, but the average daily nursing home census is expected to decrease.

The FY2004 Budget for VA Medical Care

The Administration's budget request for direct medical care for FY2004 was \$25.2 billion. This was a \$1.3 billion increase over the FY2003 appropriation for direct medical care.² The House-passed bill [H.R. 2861] would have provided \$25.7 billion for the Veterans Health Administration for FY2004. This includes funding for medical care, facility maintenance, research, and administration of medical programs.

The Senate Appropriations Committee [S. 1584] approved \$27.2 billion for VHA for FY2004, of this amount \$26.8 billion would have been for direct medical care. This is a \$3 billion increase over FY2003, and an increase of \$1.6 over the President's budget request.

The Consolidated Appropriations Act, 2004 [H.R. 2673] provides approximately \$28.6 billion for VHA. The conference report [H.Rept. 108-401] includes language restructuring the medical program accounts, from the current structure of one account for most medical programs, one account for research, and one account for medical administration, to a new account structure comprised of four accounts. The new accounts that would be funded are: medical services, medical administration, medical facilities, and medical and prosthetic research. According to the Conference Committee such an account structure would provide for "better oversight and receive a more accurate accounting of funds."

² The Administration's budget request for FY2004 proposed a new account structure that combined numerous accounts with the direct medical care account into one medical care business line. However, neither the House nor Senate Appropriations Committees recommended the new medical care business line.

Medical Care Cost Collections

In addition to the funds provided by Congress, VA medical care is also authorized to “recycle” budget authority from amounts VA facilities collect from various sources with an obligation to help defray the cost of VA care for certain patients. The Balanced Budget Act of 1997 (P.L. 105-33) gave VA authority to retain net receipts of the Medical Care Collections Fund (MCCF), allowing the funds to be spent for medical services to veterans rather than be transferred to the Treasury as under previous law.

Collection receipts added \$691 million in recycled spending authority in FY2002 and are projected to add \$1.386 billion in FY2003 and \$1.8 billion in FY2004. H.Rept. 108-235 shows \$1.5 billion in receipts as available to a separate account providing medical services to Priority 7-8 veterans. The Consolidated Appropriation Act of 2004 shows that approximately \$1.6 billion would be available for medical services from MCCF.

Medical Administration

Under the new account structure the Consolidated Appropriations Act provides \$5 billion for medical administration. This includes funding for VHA as well as administrative expenses of the Veterans Integrated Service Networks (VISNs). The conference report [H.Rept 108-401] language directs that approximately \$5 million of medical administration funds should be set aside for creation of a research oversight board to implement research protocols related specifically to patient protections.

Medical Facilities

The omnibus bill also provides \$4 billion for the operations, maintenance, and security of VA’s medical facilities. This includes funding for utilities, food services, and facility repair, among other things.

The following table shows appropriations to VA for FY2003, the Administration’s request for FY2004, the amounts recommended by each House, and the amounts ultimately enacted by Congress and signed by the President.

Table 4. Appropriations: Department of Veterans Affairs, FY2003-FY2004
(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Compens., pension, burial	28.949	29.845	29.845	29.845	29.845
Readjustment benefits	2.265	2.530	2.530	2.530	2.530
Insurance/indemnities	.028	.029	.029	.029	.029
Housing prog.(net, indef.)	.340	.306	.306	.306	.306
<i>Subtotal: Mandatory</i>	<i>31.581</i>	<i>32.710</i>	<i>32.710</i>	<i>32.710</i>	<i>32.710</i>
Med. services	—	—	16.443	—	17.867
Med. administration	—	—	4.854	—	5.000
Medical facilities	—	—	4.000	—	4.000
Med., prosthetic research	.397	.408	.408	.413	.408
Medical care	23.889	25.218	—	25.688	—

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
delayed obligations	—	—	—	1.100	—
rescission	—	—	—	-.270	-.270
Med. admin. & misc. (old)	.074	.079	—	.079	—
Med. care cost collect. ^a					
(offsetting receipts)	-1.386	-1.800	—	-1.564	-1.564
(approps. indefinite)	1.386	1.800	—	1.564	1.564
<i>Subtotal: Med. programs & admin. (appropriations)</i>	<i>24.361</i>	<i>25.705</i>	<i>25.705</i>	<i>27.010</i>	<i>27.005</i>
<i>(total available, including cost collection receipts)^a</i>	<i>(25.747)</i>	<i>(27.505)</i>	<i>(25.705)</i>	<i>(28.574)</i>	<i>(28.569)</i>
Gen. admin. exp. (total)	1.346	1.283	1.283	1.283	1.283
Nat'l Cemetery Admin.	.132	.144	.144	.144	.144
Housing program admin.	.168	.156	.156	.156	.156
Inspector General	.058	.062	.062	.062	.062
Construction	.324	.525	.527	.525	.525
Grants; state facilities	.099	.102	.102	.102	.102
State veteran cemeteries	.032	.032	.032	.032	.032
<i>Subtotal: Discretionary</i>	<i>26.520</i>	<i>28.009</i>	<i>28.011</i>	<i>29.314</i>	<i>29.309</i>
Subtotal: (VA)	58.100	60.719	60.721	62.024	62.019

Source: H.Rept. 108-401

Note: Totals may not add due to rounding. FY2004 amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

- a. Medical Care Collections Fund (MCCF) receipts are restored to the Veterans Health Administration (VHA) as an indefinite budget authority equal to the revenue collected, estimated to be \$1.386 billion in FY2003. The amount initially projected for FY2004 was \$1.8 billion; the conferees used a later estimate of \$1.564 billion.

Medical Research

The VA engages in research as an ancillary function of the treatment of veterans, and conducts independent research projects intended to advance medical science. Almost one-half of VA's research funding comes from conventional medical research funding sources, the bulk of which is provided through grants from the National Institutes of Health (NIH). The remaining funds supporting VA research are split almost evenly between appropriations from Congress specifically for such research and salaries and expenses from the VA medical care budget for the VA medical staff who are producing the studies that exhibit VA's research findings. About two-thirds of the research projects are initiated by the medical staff reporting their findings. These projects are giving greater attention to the diseases associated with an aging population, especially in conjunction with the management of those chronic conditions that are a growing part of the outpatient workload.

P.L. 108-199 incorporates administration of the research budget into the broader account structure for medical programs, and provides \$408 million for research for FY2004, same as the amount requested by the Administration. P.L. 108-7 provided \$400 million for VA medical research for

FY2003. Congress provided \$371 million for VA research in FY2002, \$350 million for FY2001, and \$321 million for FY2000.

Housing Benefits

The VA program to guarantee home loans for veterans has made a significant contribution to the national goal of increasing the number of families who own their own homes. Because of the guarantees, lenders are protected against losses up to the amount of the guarantee, thereby permitting veterans to obtain mortgages with little or no down payment and with competitive interest rates. These guarantees, and certain direct loans to specific categories of veterans, are obligations of the federal government that constitute mandatory spending. Administrative expenses are discretionary appropriations that in previous fiscal years have been transferred from the home loan programs to the General Operating Expenses account. For FY2004, the Administration proposed treating administrative expenses for all programs as part of the request for the program, instead of having one requested amount for general administration.

VA Construction

The Administration's FY2004 budget requested construction funds as an amount attached to the program budget authority line for which the construction is intended. The total amount of construction funds requested was \$525 million for FY2004, and H.R. 2861 included \$527 million. S. 1584, as reported by the Senate Committee on Appropriations, recommended \$525 million for FY2004. P.L. 108-199 provides \$273 million for major construction, and \$252 million for minor construction (projects with an estimated cost under \$4 million). "Major construction" projects have an estimated cost over \$4 million. Many of the construction projects will continue VA's overall strategy of expanding outpatient access for medical care.

Capital Asset Realignment

In 2000, VA embarked on a planning approach to constructing, altering, extending, or improving facilities. In part, this approach, called Capital Asset Realignment for Enhanced Services (CARES), was the Department's reaction to criticism from areas of the country in which hospital resources have been cut back, in order to redirect those resources to outpatient care, usually in other geographical areas.

While VA has been successful in expanding the number of patients it serves, conflict continues between advocates of a more efficient use of resources (who advocate reducing hospital space and closing or selling superfluous inpatient facilities) and veterans groups (who see any reduction in inpatient care as a threat to the veterans' services). The CARES effort is an attempt to make the planning process by which the capital assets are developed, used, modified, or relinquished, open to veterans groups. Often, the fears about reductions in health care to veterans are based on an inadequate understanding of the improvements in care for more veterans that such realignment of resources makes possible.

Some veterans have expressed the belief that, over time, moving resources from an inpatient facility in one area to outpatient access in another yields an unacceptable rate of deterioration in the former facility, as the commitment to maintain the building is diminished as the Department moves toward its eventual abandonment.

The Conference Committee has expressed concern with the recommendations made by the CARES Commission with regard to closure of some VA medical facilities. The Committee has directed VA to consider all travel issues in analysis of future needs of veterans health care. In

addition the conferees direct the Secretary of VA to develop recommendations for future use of facilities that would be closed following final recommendations of the CARES Commission.

Burial and Cemetery Benefits

The Administration requested \$176 million to honor and help defray the cost of veterans' burials during FY2004; Congress provided \$164 million for that service for FY2003, which covers about 84,000 burials, 69,000 burial plots, 9,000 service-connected deaths, 528,000 flags, and 354,000 headstones and markers.

Department Administration

In its FY2004 budget request for VA, the Administration distributed the request for administrative expenses among the several programs to be served by those administrative personnel. In the past, most administrative costs were shown as a total under the General Operating Expenses (GOE) account, with a separate request for medical care administration. For FY2004, the total requested for general administration was \$1.283 billion, and \$79 million for medical administration. Congress provided \$1.346 billion for GOE for FY2003, and \$74 million for medical administration. P.L. 108-199 provides \$1.283 billion for GOE and the amount for medical care administration is included in the \$5 billion for the new medical administration account mentioned earlier.

VA Employment Estimates

The Bush Administration projects an overall VA employment increase to an average of 211,752 in FY2003, up from an average 208,870 during FY2002, which was up from an average of 206,949 during FY2001, and 202,621 in FY2000.

Title II: Department of Housing and Urban Development

Introduction

Most of the appropriations for the Department of Housing and Urban Development (HUD) address the housing problems faced by households with very low incomes or other special housing needs. Programs of rental assistance for the poor, elderly or disabled, housing assistance for persons with AIDS, varying types of shelter for those who are homeless—all deal with the issue of the availability of low-cost housing. The two large HUD block grant programs, HOME and Community Development Block Grants, also help communities finance a variety of activities to address housing needs of disadvantaged populations. Since 1994, when the Clinton Administration started its homeowner initiative in partnership with the housing industry, HUD has focused more attention than previously on efforts to increase homeownership opportunities for lower-income and minority households. The Bush Administration has made increasing homeownership a top priority.

The following discussion of the FY2004 HUD budget first summarizes the major issues in the proposed budget, and then examines individual programs, comparing enacted levels for FY2003 with Administration proposals for FY2004 and the congressional response, highlighting significant changes in funding levels and associated issues. It should be noted that the budget

figures presented below do not include the 0.59% across the board rescission proposed in the Omnibus appropriations bill.

Most Recent Developments

An omnibus spending bill (H.R. 2673, H.Rept. 108-401) that will fund HUD for FY2004 was signed into law by the President on January 23, 2004 (P.L. 108-199). The Senate had approved the conference report on the bill on January 22, 2004 and the House, on December 8, 2003. The new budget provides HUD with nearly \$31.4 billion of appropriations (not including an advanced appropriation of \$4.2 billion that cannot be spent until FY2005).

Highlights of the Administration's Proposed HUD Budget

- Proposed budget of \$31.73 billion, up \$719 million over the \$31.01 billion enacted for FY2003 (including a 0.65% “across-the-board” rescission enacted in FY2003);
- New Housing Assistance for Needy Families (HANF) block grants to states, funded at \$13.6 billion (including the use of recaptured funds) to replace current Section 8 housing choice vouchers;
- Approximately 5,600 incremental housing vouchers, targeted to non-elderly disabled families;
- No new funding requested for the HOPE VI public housing program, Brownfields Redevelopment, Rural Housing Economic Development, and Empowerment Zone/Enterprise Communities (EZ/ECs) programs;
- A new Public Housing Reinvestment Initiative to encourage private capital for the rehabilitation of public housing;
 - New Downpayment Assistance Initiative as a \$200 million set-aside within HOME program (H.R. 1276), \$45 million for counseling, and new FHA insurance products to help lower income and minority households (an effort to combat predatory lending);
- Increased funding for homeless assistance, with new \$50 million Samaritan Initiative; and
- Community Development Block Grants requested at \$4.716 billion, \$189 million below FY2003 level, with no funding for Economic Development Initiatives (congressionally earmarked projects).

Congressional Response to Proposed Budget (H.R. 2673)

- Total HUD budget of \$31.4 billion;
- Housing Certificate Fund provided with \$19.4 billion, with no incremental vouchers;
- HANF, Public Housing Reinvestment, Samaritan and Colonias Initiatives not approved;
- HOME funded at \$2.0 billion, with \$87.5 million for Downpayment Assistance Initiative;
- Large reduction for HOPE VI, at \$150 million compared to \$570 million in FY2003;
- Near level funding for Public Housing Capital and Operating programs at just over \$6.3 billion;
- Homeless programs increased by \$50 million over FY2003;
- Proposed anti-predatory lending FHA product not adopted;

- Brownfields funded at \$25 million and Rural Housing at \$25 million; and
- Community Development Block Grants funded at about \$5 billion, near level funding with FY2003, and about \$230 million above the budget request.

The Major Issues

There were a number of basic themes in the Administration's FY2004 budget proposal: devolution, deregulation, more private capital involvement in solutions to housing problems, and efforts to increase homeownership for lower income and minority households (to increase their net worth and financial independence). Of particular controversy were major changes in the way the agency would operate and fund its two largest housing programs, Section 8 tenant-based vouchers (about 2 million vouchers) and public housing (about 1.25 million units).

On July 25, 2003, the House responded to the HUD proposal with the passage of an amended version of H.R. 2861 (H.Rept. 108-235). The Senate passed its version of the HUD budget, S. 1584, on November 18, 2003 (S.Rept. 108-143). The conference report on an omnibus appropriations bill for FY2004, filed on November 25, 2003 (H.R. 2673, H.Rept. 108-401), contained significant changes to the Section 8 Housing Certificate program compared to recommendations made by the House and Senate bills.

The Administration's major initiative, the Housing Assistance for Needy Families Act of 2003 (HANF), presented in the FY2004 budget proposal and introduced on April 30, 2003 as H.R. 1841/S. 947, would have converted the existing Section 8 housing choice voucher program into a state-administered block grant program. Grants would have been made to states to provide tenant-based rental and homeownership housing assistance.

Under the current program, there are thousands of pages of federal regulations that are cited as inhibiting HUD from quickly adjusting the program to meet local needs. HUD contends that by eliminating most of these regulations (and limiting its involvement largely to oversight of performance standards), each state would have the flexibility to be innovative in meeting its unique housing problems. HUD claims that this approach would make it possible to end the chronic problem of unspent monies in the housing voucher program.

Opponents worried that funding under the new HANF program would not keep pace with rapidly rising housing costs, and that states might establish new requirements such as time limits on receiving assistance for tenants, similar to those under welfare reform programs. Opponents questioned whether a block grant to states would merely add another layer of bureaucracy if states were to reroute federal funds back to the same local public housing authorities.

The House Appropriations Committee report recommended continued funding of the Housing Certificate Fund account rather than through the HANF proposal, noting that "this proposal is currently under consideration by the relevant authorization committees and therefore [the committee] defers any changes to the funding structure until further congressional action on the legislative proposal." The House-approved bill concurred with this view.

The Senate bill also rejected the HANF proposal, with the Appropriations Committee report stating that "Until there is reliable data on the current per-unit costs and utilization rates of vouchers as well as assurances that the block grant funding will meet all voucher needs, the Committee is not inclined to consider fully the administration's block grant proposal." Likewise, the Omnibus bill also rejected the HANF proposal.

In addition to the controversy surrounding HANF, the President's FY2004 budget raised some funding concerns among low-income housing advocates. Some observers worried that there

might not be adequate funds under the Administration's FY2004 budget request to renew all currently authorized vouchers. In recognition of a possible funding shortfall, H.R. 2861, the House bill, increased the Housing Certificate Fund (HCF) by \$150 million to near \$18.6 billion (taking the money from HUD's working capital fund that is used to make improvements to computers and other information technology systems). Some housing groups said this would still be too little to pay for all renewals and that, even with the increase, more than 60,000 vouchers would be at risk.

The Senate Appropriations Committee (S.Rept. 108-143), which provided \$18.4 billion for the HCF, acknowledged in its report that the funding provided might not be adequate to cover all renewals and stated that the Committee expected the Administration to address any budget shortfall through a FY2004 supplemental appropriations request. However, the Omnibus bill addressed this issue by increasing the appropriation for renewals, which would be offset by a larger rescission of unobligated balances in several HUD programs.

The Administration's FY2004 budget did not request funding for the HOPE VI program for the revitalization of distressed public housing. This program received \$570 million in FY2003. HUD Secretary Martinez argued that there are sufficient unspent funds in the pipeline to keep this program operating, and in the meantime, sought a dialogue with Congress on how the program might be improved. During a number of congressional hearings on the proposed budget in 2003, considerable bipartisan support was expressed for continued funding of the program. Others made the case that in a tight budget period, this was the most reasonable program to cut.

S. 811, which was signed into law by the President on December 16, 2003, reauthorized the HOPE VI program from FY2004 through FY2006 (P.L. 108-186). The House appropriations bill, H.R. 2861, recommended \$50 million in funding for HOPE VI and the Senate bill, S. 1584, would provide \$195 million for FY2004. The Omnibus appropriations bill recommended appropriations of \$150 million for HOPE VI in FY2004.

The Administration proposed its Public Housing Reinvestment Initiative to encourage Public Housing Authorities (PHAs) to convert some public housing units to Section 8 project-based assistance again this year. Under this initiative, PHAs would turn to the private sector for rehabilitation loans, pledging the project-based revenues as collateral. Congress rejected this reinvestment initiative in 2002, directing HUD to report to the Appropriations Committees about PHAs that have already obtained private financing for their capital needs.

HUD would like to move public housing towards private ownership, with more market-based decisions about the operations and maintenance of projects. HUD also claims that the large backlog of modernization needs faced by PHAs may be more quickly addressed if annual capital fund appropriations are supplemented by an infusion of private capital. Opponents contend the \$90 billion public housing stock is a national asset that provides a social safety net for the most disadvantaged and poorest of households—and that it should not be mortgaged or sold off.

The House Appropriations Committee report says it understands that “under existing statutory authorities, a number of PHAs have in fact successfully pursued approximately \$1 billion in public-private financing partnerships ... [and] the Committee believes that such proposals need to be more fully examined before significant statutory and funding changes are made.” (Baltimore, Chicago, and Philadelphia are examples of cities that have obtained such private financing.) The House bill and Senate bill rejected the proposal, with the Senate Appropriations Committee report stating that it “could result in a loss of public housing units, and would not benefit public housing units with the greatest capital needs.” The Omnibus bill (P.L. 108-199) also did not adopt the President's PHRI initiative, noting that many PHAs already secure private financing.

Under the President's FY2004 budget, the HOME housing block grant program would have been increased by \$210 million to \$2.2 billion, with \$200 million of the increase set-aside for the Administration's American Dream Downpayment Initiative. HUD estimates that this program would provide an average grant of \$5,000 for downpayment and closing cost assistance for 40,000 low-income households each year.

Few are opposed to increasing homeownership opportunities for lower income households unless it means less funding for rental assistance. But some urge caution in putting lower income households into their first home if they have a high risk of failure because of inadequate savings or the inability to protect themselves from a variety of financial predators. Language authorizing the Downpayment Act at \$200 million annually from FY2004 through FY2007 was signed by the President on December 16, 2003 (S. 811, P.L. 108-186). The Omnibus bill appropriates \$87.5 million to provide downpayment assistance to low-income families.

Table 5. Department of Housing and Urban Development Appropriations, FY2000 to FY2004

(net budget authority in billions)

FY2000	FY2001	FY2002	FY2003	FY2004
\$25.92	\$28.48	\$30.15	\$31.01	\$31.41

Source: Figures for FY2000-FY2002 are from administration budget submissions of subsequent years; FY2003 and FY2004 are from H.Rept. 108-401. Actual final spending levels for any fiscal year include all supplemental appropriations or rescissions. However, the FY2002 number does not include \$2 billion in emergency supplemental funds for the Community Development Fund for assistance to New York City following the terrorist attacks of September 11, 2001, a one time anomaly. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year.

FY2003 Appropriations

President Bush signed P.L. 108-7, the consolidated appropriations bill for FY2003, on February 20, 2003, nearly five months into the fiscal year. The law provided HUD with \$31.01 billion (after application of a 0.65% across-the-board rescission included in the law). HUD's largest program, the Housing Certificate Fund (frequently referred to as "Section 8"), received \$17.1 billion, almost \$1.5 billion more than enacted in FY2002. Despite the increase, no incremental housing vouchers were funded—that is, there was no increase in the number of low-income renters assisted. The FY2003 appropriations law included some reforms to address the chronic underutilization of housing voucher funds, directing that HUD only renew contracts with PHAs for the number of vouchers they had under lease, not those simply authorized in the previous year.

Congress appropriated \$2.7 billion in FY2003 for the Public Housing Capital Fund, \$113 million below the FY2002 funding level. The Administration's Public Housing Reinvestment Initiative, designed to encourage PHAs to convert some public housing units to Section 8 project-based assistance, was rejected. Under this initiative, PHAs would pledge the project-based revenue as collateral for rehabilitation loans. The conferees directed HUD to report to the Appropriations Committees about PHAs using private financing for their capital needs.

P.L. 108-7 increased the Public Housing Operating Fund to \$3.58 billion, \$82 million above the FY2002 level. The conferees agreed to allow HUD to use this appropriation to cover a controversial \$250 million shortfall for FY2002 that the agency blamed on flaws in its accounting system. This transfer effectively reduced the FY2003 appropriation by \$250 million.

The HOPE VI program, which is used to rehabilitate or tear down the worst public housing units, received \$570 million, level with the prior year's funding. Almost \$5 billion was approved for the Community Development Block Grant program, nearly the same as in FY2002, while the HOME block grant received an increase of about \$141 million to a total of just under \$2 billion. There was a \$75 million set-aside within the HOME program for the Administration's Downpayment Assistance Initiative, which was less than the Agency's \$200 million request.

Housing for the elderly was funded at \$776 million, down by \$7 million from FY2002, and housing for the disabled received \$251 million, up by about \$10 million. Housing opportunities for persons with AIDS was funded at \$290 million, an increase of about \$13 million. The Administration made ending chronic homelessness in the next 10 years a top priority, and Congress provided \$1.22 billion, \$93 million more than enacted in FY2002.

For more details, see CRS Report RL31304, *Appropriations for FY2003: VA, HUD, and Independent Agencies*.

Public and Indian Housing Programs

Project-based and Tenant-based Rental Assistance

HUD's low-income rental assistance program, commonly referred to as Section 8, has two components: vouchers (the Housing Choice Voucher (HCV) program); and project-based rental assistance. Vouchers are rental subsidies that eligible families can use to lower their rents in the housing units they choose to live in; project-based subsidies are rental subsidies attached to specific housing developments that are under contract with HUD.

For several years, funding for these two programs has been provided in one account, called the Housing Certificate Fund (HCF). In FY2003, Congress provided \$17.1 billion in direct appropriations for the HCF. For FY2004, the Administration proposed to abolish the HCF by splitting it into two separate accounts, creating two separate programs: the Housing Assistance for Needy Families (HANF) block grant to states, which would provide vouchers; and the project-based rental assistance program which would remain essentially unchanged. For HANF, the Administration requested a total funding level of \$13.6 billion for FY2004. This figure includes a direct appropriation of \$12.5 billion and \$1.1 billion that the Administration estimates will be available from unobligated balances carried over from previous years. For the project-based rental assistance program, the Administration requested \$4.8 billion in new budget authority for FY2004 and indicated that \$300 million is available for rescission. Combined, the President requested \$18.4 billion for the Section 8 programs (including the \$1.1 billion in unobligated balances).

Table 6. Appropriations: Housing and Urban Development, FY2003-FY2004 " (b) (4) D (budget authority in billions)

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Housing Certificate Fund (HCF)					
Direct appropriation	12.939	—	14.381	14.234	15.171
Advance approp. from previous acts	4.173	—	4.200	4.200	4.200
Advance approp. in current year	4.200	—	4.200	4.200	4.200
Housing Assistance for Needy Families (HANF) ^a					

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Direct appropriation	—	8.335	—	—	—
Advance approp. from previous acts	—	4.200	—	—	—
Advance approp. in current year	—	4.200	—	—	—
<i>Subtotal: Housing assistance funds</i>	<i>21.312</i>	<i>16.735</i>	<i>22.781</i>	<i>22.634</i>	<i>23.571</i>
<i>Direct appropriations</i>	<i>(17.312)</i>	<i>(16.735)</i>	<i>(18.581)</i>	<i>(18.434)</i>	<i>(19.371)</i>
<i>Advance approp. prov. in current year</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>
Project-based Rental Assistance	—	4.823	—	—	—
Section 8 recaptures (rescission)	-1.600	-0.300	-1.372	-1.372	-2.844
Public housing capital fund	2.712	2.641	2.712	2.641	2.712
Public housing operating fund	3.577	3.574	3.600	3.577	3.600
Revitalization of distressed public housing (HOPE VI)	.570	—	.050	.195	.150
Native American housing block grants	.645	.647	.662	.647	.654
Indian housing loan guarantee	.005	.001	.005	.005	.005
Native Hawaiian Block Grant	—	.010	—	—	—
Native Hawaiian loan guarantee	.001	.001	.001	.001	.001
<i>Subtotal: Public & Indian Housing</i>	<i>27.222</i>	<i>28.132</i>	<i>28.439</i>	<i>28.327</i>	<i>27.850</i>
<i>(Rescissions)</i>	<i>(-1.600)</i>	<i>(-.300)</i>	<i>(-1.372)</i>	<i>(-1.372)</i>	<i>(-2.844)</i>
<i>(Advance approps., FY2003 & FY2004)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>
<i>(Appropriations)</i>	<i>(23.022)</i>	<i>(23.932)</i>	<i>(24.239)</i>	<i>(24.127)</i>	<i>(23.650)</i>
Housing, persons with AIDS (HOPWA)	.290	.297	.302	.291	.297
Rural Housing Economic Development	.025	.000	.025	.025	.025
Empowerment zones; enterprise communities	.030	.000	.015	—	.015
Community Development Block Grant	4.905	4.716	4.959	4.951	4.950
Colonias Initiative	—	.016	—	—	—
Urban Develop. Act. Grants (rescission)	—	-.030	-.030	-.030	-.030
Section 108 loan guarantee; subsidy	.007	—	—	.007	.007
Brownfields redevelopment	.025	—	.025	.025	.025
HOME Investment Partnerships	1.987	2.197	2.064	1.975	2.018
Homeless Assistance Grants	1.217	1.325	1.242	1.325	1.267
Samaritan Initiative	—	.050	—	—	—
<i>Subtotal: Community Plan. & Develop.</i>	<i>8.486</i>	<i>8.571</i>	<i>8.602</i>	<i>8.569</i>	<i>8.573</i>
Housing, special populations ^b	1.027	1.025	1.024	1.034	1.029
<i>Housing for the elderly</i>	<i>—</i>	<i>.774</i>	<i>.773</i>	<i>—</i>	<i>.778</i>
<i>Housing for the disabled</i>	<i>—</i>	<i>.251</i>	<i>.251</i>	<i>—</i>	<i>.251</i>
Housing Counseling Assistance	—	.045	—	—	—
Rental housing assistance (rescission)	-.100	-.303	-.303	-.303	-.303

Programs	FY2003	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Federal Housing Administration (net) ^c	-2.217	-2.359	-2.359	-2.359	-2.359
GNMA (net) ^d	-.348	-.307	-.307	-.307	-.307
Research and technology	.047	.051	.047	.047	.047
Fair housing activities	.046	.050	.046	.050	.048
Office, lead hazard control	.175	.136	.130	.175	.175
Salaries and expenses	.527	.537	.547	.535	.547
Working capital fund	.275	.276	.090	.240	.235
Inspector General	.074	.076	.076	.078	.077
Rescissions; legislative savings; supplemental	-.008	—	—	—	—
<i>Subtotal: net HUD approps. (this bill)</i>	<i>35.204</i>	<i>35.929</i>	<i>36.031</i>	<i>36.086</i>	<i>35.612</i>
<i>Appropriations</i>	<i>(36.091)</i>	<i>(35.883)</i>	<i>(37.046)</i>	<i>(37.118)</i>	<i>(38.106)</i>
<i>Rescissions; total</i>	<i>(-1.708)</i>	<i>(-0.633)</i>	<i>(-1.705)</i>	<i>(-1.705)</i>	<i>(-3.177)</i>
<i>Negative subsidy</i>	<i>(-2.978)</i>	<i>(-3.146)</i>	<i>(-3.146)</i>	<i>(-3.146)</i>	<i>(-3.146)</i>
<i>Offsetting collections</i>	<i>(-.401)</i>	<i>(-.367)</i>	<i>(-.363)</i>	<i>(-.381)</i>	<i>(-.371)</i>
<i>Advance appropriations</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>	<i>(4.200)</i>
Subtotal: HUD (net, current year, w/o adv. for following fiscal year)	31.004	31.729	31.831	31.886	31.412

Source: H.Rept. 108-401

Note: Totals may not add due to rounding. FY2004 amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

^a The Administration has requested a direct appropriation of \$12.535 billion for FY2004; however, they anticipate the availability of \$1.072 billion in unobligated balances, leading to a total program level of \$13.607 billion.

^b The Administration did not request a total amount for special populations, but requests separate amounts for the elderly and the disabled. The House and omnibus conference agreement adopted the Administration's proposal to fund the programs separately; the Senate did not.

^c Net, interagency transfers and offsetting receipts against appropriations of the current year; included in the totals are projected experience gains greater than premiums to the mortgage insurance fund, which are now treated as offsetting receipts against discretionary funds. The effect is estimated to be \$-2.753 billion for FY2003 and \$-2.921 billion for FY2004.

^d Net, interagency transfers and offsetting receipts against appropriations of the current year.

- a. Amounts less than \$1 million do not appear in this table. In FY2003, \$195,000 in surplus offsetting receipts was collected by HUD from the Office of Federal Housing Enterprise Oversight and \$85,000 was collected from the Manufactured Housing Fees Trust Fund.

The House appropriations bill, H.R. 2861, did not adopt the HANF proposal's funding structure. Instead, the House bill would provide \$18.6 billion for the HCF for FY2004, up \$150 million from the President's request. Of that amount, \$4.7 billion would be provided for project-based rental assistance and \$13.8 billion would be provided in direct appropriations for vouchers. The House proposed to rescind the \$1.1 billion in carryover funds that the Administration highlighted for program use as well as the \$300 million the Administration highlighted for rescission.

The Senate bill also rejected the President's HANF proposal. The Senate did adopt the President's funding level for Section 8, providing \$18.4 billion for FY2004, less than the \$18.6 billion provided by the House. The bill would also rescind \$1.4 billion in unobligated balances.

Like the House and Senate, the Omnibus appropriations bill rejected the HANF proposal. The bill would fund the HCF at a level almost \$1 billion higher than the requested level (\$19.4 billion), but would rescind twice as much as the House or Senate bills (\$2.844 billion).

What is HANF?

The Housing Assistance for Needy Families (HANF) (H.R. 1841, S. 947) program would replace the existing voucher program that is administered by local PHAs with a block grant provided to states. In the Administration's FY2004 congressional budget justification, HUD asserts that state administration would increase the utilization of vouchers, eliminating the large amounts of unobligated balances available for recapture every year. They argue that states would have the flexibility to quickly adjust the program to meet local and regional needs. Critics of the proposal fear that the value of the block grant will erode over time, leaving the program underfunded. They also express concern that states will not have the capacity, because of inexperience with the program and tight budgets, to handle the program.

According to the Administration, FY2004 would be a transition year for the HANF proposal, meaning that PHAs would continue to administer the program as usual; the Administration anticipates that the program, if passed, would be fully implemented in FY2005. The table below compares some of the proposed features of HANF to existing features of the HCV program.

Table 7. Comparison of Existing Housing Voucher Program and HANF Proposal

Housing choice voucher program	HANF
Thirty-three states currently administer a <i>portion</i> of the HCV program, but most funds are administered by local PHAs.	States would have the option to administer the whole program, contract all or part to PHAs or not participate. If a state chose not to participate, HUD could administer the program itself or choose another entity to administer the program.
At least 75% of vouchers must be targeted to extremely low income families (30% or below area median income), although the Secretary can change the definition of extremely low income for certain communities.	At least 75% of vouchers would be targeted to extremely low income families (30% or below area median income), although the Secretary would be able to grant waivers to communities as long as at least 55% of vouchers remain targeted to extremely low income families.
PHAs currently have the option of setting a minimum rent of <i>up to</i> \$50 per month.	A minimum rent of <i>at least</i> \$50 per month would be required for each family.
Initial eligibility for the program is set at the <i>very low income level</i> (50% or below area median income), although PHAs <i>can choose</i> to expand eligibility to the low income level (80% or below area median income) for certain <i>categories of families they choose</i> .	Initial eligibility for the program would be set at the <i>low income level</i> (80% or below area median income), although the <i>Secretary could choose</i> to expand eligibility <i>above</i> the low income level for <i>elderly and disabled families</i> .
Families cannot pay more than 40% of their incomes toward rent.	Families could not be required to pay more than 30% of their incomes towards rent, but could choose to pay more.
Housing units under voucher contracts must be inspected <i>annually</i> .	Housing units under voucher contracts would be required to be inspected <i>every three years</i> .

Housing choice voucher program	HANF
An estimated 2 million vouchers are up for renewal in FY2004.	States would be required to make every effort to assist the same number of families under HANF as are currently being assisted under the HCV program.
PHAs are evaluated annually through the Section 8 Management Assessment Protocol (SEMAP) which is a set of 14 criteria established by HUD. If PHAs perform poorly, they may face financial penalties until they improve or may come under receivership.	Each state would be required to make performance evaluation reports to the Secretary on its progress in reaching the goals it has established in an annual plan. If a state is not making sufficient progress, HUD can retake administration of the program.

Source: Congressional Research Service, from CRS Report RL31930, *The Housing Choice Voucher Program, Funding, and Issues in the 108th Congress*.

For more details on the Housing Choice Voucher Program and the HANF proposal, see CRS Report RL31930, *The Housing Choice Voucher Program: Background, Funding and Issues in the 108th Congress*.

Contract Renewals

Most vouchers and project-based rental assistance subsidies are funded by Congress in one-year increments. As a result, PHAs enter into one-year contracts, which come up for renewal every year. The renewal of expiring contracts accounts for the majority of the cost of the Section 8 programs. In FY2003, \$10.9 billion was appropriated for the renewal of approximately 2 million expiring vouchers (not including administrative funds and central reserve funds) and \$4.3 billion was appropriated to renew approximately 817,000 project-based units. These renewal costs accounted for \$15.24 billion (or 89%) of the HCF appropriation in FY2003.

For FY2004, the Administration requested \$11.48 billion for the renewal of expiring vouchers through the HANF program (not including administrative funds or central reserve funds) and \$4.72 billion to renew expiring project-based contracts. The Administration estimated that its request for renewals, \$16.2 billion, would renew approximately 1.9 million vouchers and approximately 870,000 project-based contracts.

The House-passed appropriations bill would have provided a total of \$16.5 billion for Section 8 renewals. Of that amount, \$11.73 billion would be to renew expiring vouchers (slightly more than the Administration requested) and \$4.72 billion would be to renew expiring project-based contracts. The Senate bill would have provided \$16.2 billion for renewals in FY2004—\$11.5 billion for voucher renewals and \$4.7 billion for project-based renewals. The omnibus bill provided \$17.6 billion for renewals; \$1 billion more than the House, Senate or President's level.

In prior years, HUD had set aside funding for each PHA based on the number of vouchers the PHA was authorized to lease, rather than the number of vouchers it was actually using (leasing). Every time a PHA would have less than 100% utilization of vouchers, HUD would come in at the end of the year and recapture unobligated balances. This system resulted in HUD recapturing over a billion dollars in unobligated balances every year. In FY2003, Congress adopted a new funding structure for voucher renewals. This structure provides funding to local PHAs only for those vouchers that they are leasing, or can reasonably expect to lease, rather than the full number that they are authorized to lease. This change provides HUD with the flexibility to move money to where it is needed in a more timely manner and is expected to reduce the size of unobligated balances available for recapture. All three appropriations bills continue this new funding structure.

The President's FY2004 budget request raised some funding concerns among low-income housing advocates. Several were worried that there may not be adequate funds under the

Administration's FY2004 budget request to renew all currently authorized vouchers. Analyzing HUD data, the Center on Budget and Policy Priorities (CBPP) concluded that the Administration's funding request for vouchers could result in insufficient funding in 2004 to support as many as 90,000 housing vouchers now in use. HUD's FY2004 funding request was based on data from 2001 and 2002, which indicated that fewer vouchers were being used and that voucher costs were lower than CBPP estimated using FY2003 data.

If the funding provided by Congress is insufficient to renew all existing vouchers, then HUD has several options. It could dip into unspent funds from prior years to cover any shortfall, although it is unclear how much is available from this source. HUD could also direct PHAs not to reissue vouchers that become available, which would cut down on costs without evicting anyone. Finally, if these other strategies did not work, HUD could direct PHAs to take back subsidies from families.

In recognition of a possible funding shortfall, the House increased the Housing Certificate Fund (HCF) by \$150 million over the Appropriations Committee recommendation (taking the money from HUD's working capital fund that is used to make improvements to computers and other information technology systems). Some housing groups say this was still too little to pay for all renewals and that, even with the increase, more than 60,000 vouchers would still be at risk. The Senate Appropriations Committee acknowledged that the funding level provided in the Senate bill might not be adequate to cover all renewals and that they expect the Administration to address any budget shortfall through a FY2004 supplemental appropriations request. A "Sense of the Senate" amendment was added to the bill on the Senate floor, which stated that—

- (1) housing vouchers are a critical resource in ensuring that families in America can afford safe, decent, and adequate housing;*
- (2) public housing agencies must retain the ability to use 100% of their authorized vouchers to help house low-income families; and*
- (3) the Senate expects the Department of Housing and Urban Development to take all necessary actions to encourage full utilization of vouchers, and to use all legally available resources as needed to support full funding for housing vouchers in FY2004, so that every voucher can be used by a family in need.*

The conference agreement on the omnibus appropriations bill, H.R. 2673, takes a different approach than the House or Senate to deal with concerns about insufficient renewal funds. P.L. 108-199 provides an additional \$1 billion for renewals, and then increases the rescission level, which allows the Secretary to spend more to renew vouchers, since the rescission can be met using excess balances from other accounts. According to the report language, the conferees were concerned about the escalating costs of the voucher program. In that language, they directed the Secretary to report back on the causes of the rising costs and possible solutions.

Central Reserve Fund

The Secretary can use central reserve funds to supplement the voucher program if PHAs' costs increase. Such cost increases can result either from increases in the average cost per voucher or increases in the average utilization of vouchers. The central reserve fund was created in FY2003 and funded at \$389 million. For FY2004, the Administration requested \$609 million for the central reserve fund as a part of its HANF proposal. Of that amount, \$100 million would be earmarked for states to use in preparation for full implementation of HANF in FY2005. An additional \$36 million from the central reserve fund would be available for incremental vouchers targeted to non-elderly disabled families. The authority to use central reserve funds for new

incremental vouchers would be new; currently, central reserve funds cannot be used for new vouchers.

H.R. 2861 proposed \$569 million for the central reserve fund, up substantially from FY2003, but down slightly from the Administration's request. The House did not include a \$100 million set-aside for HANF costs, nor did it provide the Secretary with the authority to use central reserve funds to create incremental vouchers.

The Senate approved \$461 million for the central reserve fund. Like the Administration's request, up to \$36 million could be used to provide vouchers to non-elderly, disabled families; however, unlike the Administration's request, the Senate would not set aside any money for state HANF start-up costs.

The omnibus provides \$137 million for the central reserve fund, but does not allow any of the funds to be used for new vouchers.

Incremental Vouchers

The term "incremental" is used to describe new vouchers. No new incremental vouchers were provided in FY2003; for FY2004, as described above, the Administration requested the authority to use central reserve funds for new incremental vouchers, including up to \$36 million for non-elderly disabled families.

Neither the House bill nor the conference agreement on the omnibus included any funding for new incremental vouchers or permit the Secretary to use central reserve funds for new incremental vouchers. The Senate bill would have permitted HUD to use up to \$36 million from the central reserve fund for incremental vouchers for non-elderly, disabled families, if the Secretary determines that the funds are not needed to support existing vouchers.

Tenant Protection Vouchers

Tenant protection vouchers are used to relocate families whose subsidized housing units have been demolished, sold or converted to market-rate. These vouchers are also used for families in the Family Unification Program or in the Witness Protection Program. The Administration requested \$252 million for tenant protection vouchers as a part of its FY2004 HANF request, which was an increase from the \$232 million provided in FY2003. The FY2004 request would fund the same number of vouchers funded in FY2003 (43,300). Funding for tenant protection vouchers, like other vouchers, does not include administrative costs.

The House bill would have provided \$206 million for tenant protection vouchers, down both from the FY2003 funding level as well as the Administration's request. The Senate would have provided \$252 million for tenant protection vouchers, equal to the Administration's request. The omnibus provides \$206 million for tenant protection vouchers.

Administrative Costs

The voucher program is managed at the local level by quasi-governmental bodies called PHAs; the project-based program is managed by state, local, and private entities called contract administrators. PHAs distribute vouchers, help families find housing, and manage the program accounting; contract administrators oversee the physical and financial health of projects that are under contract with HUD. Funding for contract administrators in the project-based program is provided separately from funding for PHAs in the voucher program. Congress has expressed concern over the past couple of years that PHAs may receive too much in administrative fees for

the voucher program and that they are using the excess for other purposes. Changed in FY2003, and proposed changes in FY2004 aim to address that concern.

For the voucher program, HUD requested \$1.19 billion for administrative costs in FY2004, as a part of its overall HANF request. This request would provide an increase from the \$1.07 billion provided in FY2003. For the project-based program, HUD requested \$100 million for contract administrators in FY2004. This request is a decrease from the \$195 million provided in FY2003.

The House bill, H.R. 2861, would have provided \$1.21 billion for voucher administrative costs in FY2004, which is up from the President's request. The House bill maintains provisions included in the FY2003 appropriations law that limit the administrative fee reserves maintained by PHAs to 5% and prohibited the use of administrative fees for programs other than the voucher program. In addition, the House bill included new provisions which direct the Secretary to distribute administrative fees to PHAs, in a manner prescribed by the Secretary, in an amount not to exceed the amount provided in the bill.

Under current practice, the Secretary uses a formula to determine administrative fees earned by PHAs. As a result, the cumulative amount owed to PHAs can vary based on a number of factors, including utilization rates and fair market rents, and therefore, could conceivably rise above the amount provided in an appropriations bill. The provision in the House bill would direct the Secretary to ensure that the amount of administrative fees paid to PHAs stays at or below the appropriated amount, which may mean that the Secretary will have to adopt a new formula for providing administrative fees, potentially resulting in lower fees paid to PHAs.

The Senate bill would have provided \$1.3 billion for administrative fees for the voucher program, greater than the amount requested and recommended by the House. The funds would have been allocated under the existing formula. The Senate bill would have maintained the 5% cap on administrative fee reserves introduced in FY2003, however, the bill did not include the language from the House bill that could potentially limit PHA administrative fee earnings.

The omnibus bill provides \$1.24 billion for administrative fees for the voucher program in FY2004. Rather than adopting the new House-proposed allocation formula, or retaining the current allocation formula as the Senate proposed, P.L. 108-199 introduces a new allocation plan. \$1.19 billion would be available to be distributed on a pro-rata basis to PHAs, based on what they received in the previous year. The remaining \$50 million will be allocated at the Secretary's discretion to PHAs who need additional funds. Under this bill, administrative fees and fee reserves would be limited for use only in the Section 8 program.

For contract administrators, all three bills provide funding at the President's requested level of \$100 million.

Family Self Sufficiency Coordinators

Family Self Sufficiency (FSS) coordinators help families obtain job training and employment. The FSS program's goal is to decrease families' dependency on public assistance programs and move them towards economic self sufficiency. In FY2003, \$48 million was provided for FSS coordinators; in FY2004, \$72 million is requested for FSS coordinators.

The amount provided in H.R. 2861 and the omnibus for FSS coordinators in FY2004 would match the amount provided in FY2003 (\$48 million), but would be significantly less than the amount requested by the Administration (\$72 million). The Senate bill would fund FSS coordinators at the President's requested level.

Unobligated Balances

For several years, unspent funds have accumulated within the HCF. These unspent funds, called unobligated balances, accrue when local PHAs do not spend all of the funds, or use all of the vouchers, they were given in a year. Congress has expressed great concern over this “chronic underutilization.” Another source of unobligated balances comes from expiring project-based Section 8 rental assistance contracts. Originally, Congress provided funding for these contracts, most of which originated in the late 1970s and early 1980s, in 20 year increments. In many cases, the amount of funding needed to maintain these contracts was over estimated, so when they expire after 20 years, some budget authority is left over. It is estimated that the majority of these contracts will expire by FY2008, although it is unclear how much budget authority those expirations will release each year.

In FY2003, HUD reported \$2.84 billion in unobligated balances in the Housing Certificate Fund, according to the FY2004 Budget Appendix. Of that amount, HUD expected Congress to rescind \$1.1 billion in FY2003. Congress actually rescinded \$1.6 billion in FY2003 and required HUD to change the way that it obligated voucher funds in the hopes of reducing future unobligated balances resulting from voucher underutilization. The remaining \$1.24 billion dollars was available for use in FY2003 or could be carried over into FY2004.

In its FY2004 request, the Administration stated that it expected to have \$1.37 billion available in unobligated balances. Of that amount, the Administration anticipated that \$1.07 billion will be used for vouchers under HANF and \$300 million will be rescinded by Congress from the project-based rental assistance program. However, HUD’s estimate of unobligated balances available in FY2004 is no longer current. Since the Administration developed the FY2004 budget request before the FY2003 funding level was enacted, they had to base their estimates on the funding levels they had requested, rather than what they had received. Therefore, the \$1.37 billion was estimated using a smaller rescission level and a higher overall appropriation level for the HCF than was actually enacted. Therefore, it is unclear how much HUD will actually have available in unobligated balances in FY2004.

Both the original House and Senate bills accepted the Administration’s estimate of unobligated balances and both chose to rescind the full \$1.37 billion that HUD claims to have available. However, the omnibus bill would rescind \$2.84 billion in unobligated balances in FY2004. This amount is significantly higher than either the House or Senate proposed level and higher than the amount the Administration said was available. However, language in P.L. 108-199 directs the Secretary to use unobligated balances from other accounts if funds in the HCF are insufficient to meet the higher rescission level.

Table 8. shows a breakdown of funding for the vouchers and project-based programs. Note that the last column does not include the .59% across the board rescission contained in the omnibus appropriations bill.

Table 9. FY2003 and FY2004 Appropriation Levels for Vouchers and Project-based Rental Assistance

(\$ in billions)

	FY2003 enacted^a	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Budget authority: Vouchers/HANF					
New appropriations	12.604	12.535	13.757	13.611	14.548

	FY2003 enacted ^a	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Advance approp., prior year	(4.172)	(4.200)	(4.200)	(4.200)	(4.200)
Current-year appropriation	(8.431)	(8.335)	(9.557)	(9.411)	(10.348)
Budget authority available from unobligated balances	2.838	1.072 ^b	1.072 ^b	1.072 ^b	1.072 ^b
Budget authority rescinded or not expected to be used in specified FY	-2.838 ^c	0	-1.072 ^b	-1.072 ^b	-2.844 ^b
Subtotal	12.604^d	13.607^e	13.757^e	13.611^e	14.548
Breakdown: Vouchers/HANF					
Contract renewals	10.870	11.482	11.725	11.484	12.916
New incremental vouchers	0.000	0.036	0.000	0.036	0.000
Tenant protection vouchers	0.232	0.252	0.206	0.252	0.206
Administrative fees	1.065	1.192	1.209	1.339	1.242
Central reserve fund	0.389	0.473	0.569	0.425	0.136
Funds to states for HANF start-up costs	0.000	0.100	0.000	0.000	0.000
Family self sufficiency coordinators	0.048	0.072	0.048	0.072	0.048
Audit Costs	0.000	0.000	0.000	0.003	0.000
Subtotal	12.604	13.607	13.757	13.611	14.548
Budget authority: Project-based rental assistance					
New appropriations	4.507	4.823	4.823	4.823	4.823
Budget authority available from unobligated balances	0	0.300 ^f	0.300 ^f	0.300 ^f	0.300 ^f
Budget authority rescinded or not expected to be used in specified FY	0	-0.300	-0.300	-0.300	-0.300
Subtotal	4.507	4.823	4.823	4.823	4.823
Breakdown: Project-based rental assistance					
Project based vouchers	4.309	4.720	4.720	4.720	4.720
Contract administrators	0.195	0.100	0.100	0.100	0.100
Working capital fund	0.003	0.003	0.003	0.003	0.003
Subtotal	4.507	4.823	4.823	4.823	4.823
Tenant-based and project-based combined funding level	17.111	18.430	18.580	18.434	19.371

Source: This table was prepared by the Congressional Research Service using data from the FY2003 Consolidated Appropriations Conference Report (H.Rept. 108-10), HUD FY2004 Congressional Justifications, H.Rept. 108-235, S.Rept. 108-143, and H.Rept. 108-401.

- The FY2003 numbers reflect an across the board rescission of .65% enacted in FY2003.
- The Administration assumes a recapture of \$1.072 billion in unobligated funds from HANF and has, therefore, requested an appropriation of \$1.072 billion less than their actual needs; however, Congress has historically considered the actual needs as the request for new budget authority while rescinding unobligated balances. The Administration's estimate of unobligated balances may not be accurate (see earlier discussion of unobligated balances).

- c. In FY2003, \$2.838 billion was available in unobligated balances, according to the FY2004 HUD Budget Appendix. Of this amount, Congress rescinded \$1.6 billion. The FY2003 appropriations bill conference report stated that any unobligated balances in excess of the \$1.6 billion necessary to meet the rescission would be available to the Secretary. However, the conferees provided more than the Secretary had requested for the HCF in FY2003, so one could assume that the Secretary would not need to use any unobligated balances in FY2003. (See earlier discussion of unobligated balances.)
- d. This amount does not include \$4.2 billion in advance appropriations provided in FY2003 for use in FY2004. The \$4.2 billion provided in FY2003 for use in FY2004 is included in the next column under "advance appropriations from previous year."
- e. This amount does not include \$4.2 billion in advance appropriations requested in FY2004 for use in FY2005. In the case of the omnibus, this amount assumes that any rescissions above \$1.072 that are not available in unobligated balances in the HCF are taken from other accounts, rather than lowering the funding level available to the voucher program.
- f. Based on the FY2004 HUD budget justification, this table allocates \$300 million of the unobligated balances from the Housing Certificate Fund to the project-based rental assistance program. The Administration's estimate of unobligated balances may not be accurate (see earlier discussion of unobligated balances).

Advance Appropriations

For the past several years, two types of appropriations have been used to fund the Housing Certificate Fund: an appropriation available in the named fiscal year; and an advance appropriation of \$4.2 billion, which is not available until the *next* fiscal year. For example, funding for the HCF in FY2003 included:

\$12.9 billion in appropriations for use in FY2003; and

+\$ 4.2 billion in advance appropriations provided in FY2002 for use in FY2003

= \$17.1 billion in available appropriations (not including unobligated balances) for the HCF in FY2003

Note that the \$4.2 billion in advance appropriations that was provided in FY2003 for FY2004 is not included in the total for the HCF in FY2003 shown above. However, it is included in the Administration's FY2004 anticipated budget for HANF:

\$ 4.8 billion in appropriations for use in FY2004 (for the project-based program);

\$ 8.3 billion in appropriations for use in FY2004 (for HANF); and

+\$ 4.2 billion in advance appropriations provided in FY2003 for use in FY2004

= \$17.3 billion in available appropriations (not including unobligated balances) for HANF and the project-based rental assistance program in FY2004

The advance appropriation structure was adopted again in the FY2004 budget request. For FY2004, the Administration requested \$4.2 billion in advance appropriations (to be spent in FY2005) for HANF. The House, Senate and omnibus bills also propose to maintain the advance appropriation funding structure.

Public Housing Programs

The public housing program was designed to provide safe, decent and affordable housing to low-income families. While no new public housing developments have been built for many years (except through the HOPE VI program, which is discussed below), Congress continues to provide funds to maintain the existing stock of over 1.2 million units. (HUD defines "affordability" as requiring a family to pay no more than 30% of its adjusted income for rent.)

Public Housing Operating Fund

The Public Housing Operating Fund provides subsidies to local PHAs for public housing operating expenses, including maintenance, utilities, and tenant and protective services. These subsidies allow PHAs to keep rents affordable for very low-income families.

For FY2004, the Administration requested \$3.57 billion for the Operating Fund, which is less than the \$3.58 billion provided in FY2003. Of the amount requested for FY2004, \$15 million would be set aside for the Resident Opportunities for Self Sufficiency (ROSS) program. The ROSS program provides residents with supportive services and assistance in becoming economically self-sufficient.

H.R. 2861 would have provided \$3.6 billion for the Public Housing Operating Fund, an increase over the FY2003 level and the President's request. Of that amount, the House bill would transfer \$10 million to the Department of Justice to be used for efforts to fight crime and drugs in public housing. This transfer was not proposed by the Administration. The House bill did not adopt the President's proposal to set-aside Operating Fund dollars for the ROSS program. However, the House also proposed to set aside Capital Fund dollars for the ROSS program, as has been done in the past (see discussion below).

The Senate would have provided \$3.58 billion for the Operating Fund for FY2004, the same level that was provided in FY2003. As in the House bill, \$10 million would be available for transfer to the Department of Justice.

The Omnibus provides \$3.6 billion for the Public Housing Operating Fund for FY2004, of which \$10 million would be available for transfer to the Department of Justice.

A Note About the Operating Fund Shortfall From FY2002

In FY2002, HUD did not have enough operating funds to provide full subsidies to all PHAs. HUD was short \$250 million because it had been miscalculating how much it needed for the Operating Fund for several years. In past years, HUD would cover the shortfall by automatically dipping into future years' appropriations without requesting advance approval from Congress. However, HUD was unable to automatically dip into its FY2003 appropriation to cover its FY2002 shortfall because the agency was operating under a series of short-term continuing resolutions.

Instead, HUD had to ask Congress' permission to use funds from FY2003 to cover FY2002. Congress granted HUD that permission, but Congress did not increase HUD's FY2003 appropriation to compensate for the \$250 million that was used for FY2002. Since the FY2003 Operating Fund was effectively reduced, HUD had to reduce PHAs' operating budgets. HUD instructed PHAs to reduce their budget requests by 30%, but informed them that their budgets may be adjusted again later in the year (See HUD Notice PIH 2003-1, released in January 2003). HUD has since adjusted PHA budgets to close to 90% (a final cut of approximately 10%).

A Note About Calculating Operating Subsidies

The Quality Housing and Work Responsibility Act of 1998 (P.L. 105-276) directed HUD to develop a new formula for allocating operating funds to the PHAs. However, developing this new formula is proving difficult and controversial. An interim formula-based approach for allocating operating funds was implemented in FY2001, following regulatory negotiations required by the 1998 Act. The current formula takes into account size, location, age of housing stock, occupancy

and other factors intended to reflect the cost of operating a well-managed public housing development.

The final report of the Public Housing Operating Cost Study was released in June 2003 http://www.gsd.harvard.edu/research/research_centers/phocs/. The study makes several recommendations including using FHA properties to bench-mark future operating costs and converting the existing public housing system to a property-based management structure. Since its release, the study has generated much controversy, in particular its recommendations have received some resistance from the advocacy groups who represent PHAs.

HUD states that it has undertaken rule making action based on the recommendations of the study; advocacy groups and some Members of Congress are calling for the creation of a negotiated rule making committee, including advocacy groups and industry representatives, to complete work on the regulations. HUD has indicated that it would like to finalize a new formula by the end of 2003. An amendment added to the HUD funding bill on the Senate floor and included in the omnibus would require HUD to undertake negotiated rule making in implementing the new operating formula.

Public Housing Capital Fund

The Public Housing Capital Fund provides money to PHAs for the rehabilitation and modernization of public housing. Regular physical maintenance ensures that these developments do not become unsafe for residents or so obsolete that they must be demolished. HUD estimates that there is a backlog of \$20 billion in rehabilitation and modernization needs facing public housing and that an additional \$2.2 billion in capital needs accrue annually.

The HUD budget requested \$2.64 billion for the capital fund in FY2004, less than the \$2.71 billion enacted in FY2003. The justification for this cut in the face of such a large backlog was the introduction of what the Administration terms the Public Housing Reinvestment Initiative (PHRI) and Loan Guarantee. Under this proposal, HUD would consider requests from PHAs to participate in this initiative on a property-by-property basis.

The program would include leveraging of private capital through a combination of loan guarantees and the conversion of public housing units to project-based voucher assistance. For loan guarantees, this proposal would set aside \$131 million in public housing capital funds, which could partially guarantee (up to 80%) \$1.7 billion in loans to pay for capital improvements to public housing.

The conversion of public housing to project-based vouchers is designed to make PHAs seem more credit-worthy. The Administration claims that lenders will view project-based voucher funding as a more predictable stream of income than capital fund appropriations. Furthermore, the Administration thinks that converting public housing to project-based vouchers would benefit families.

Families with project-based vouchers have the ability to convert their project-based vouchers to portable tenant-based vouchers after one year. Therefore, families who used to be tied to public housing but who convert to project-based and then to tenant-based vouchers, would be able to move to the housing of their choice. Legislation to enact this proposal has not been introduced in the 108th Congress. A similar proposal was offered by the Administration in FY2003, but was not adopted.

Critics of the Administration's PHRI proposal argue that many PHAs already successfully participate in private financing without converting public housing to vouchers. They are

concerned that converting public housing units to vouchers would essentially privatize public housing and further deplete the nation's stock of low-cost housing.

In addition to the \$131 million for the PHRI, the Administration requested the following set-asides in the Capital Fund for FY2004: \$40 million for ROSS; \$40 million for the emergency disaster reserve; \$10 million for the working capital fund; \$50 million for technical assistance; and \$30 million for the demolition of obsolete public housing units.

The House appropriations bill, H.R. 2861, would have provided \$2.7 billion for the Capital Fund for FY2004, an amount higher than the Administration's request and level with FY2003. The Committee rejected the Administration's PHRI initiative, stating that many PHAs have already pursued public-private financing partnerships under existing statutory authority.

The House provided for the following set-asides in the Capital Fund for FY2004: \$55 million for ROSS; \$40 million for emergency disaster reserve; \$11 million for the working capital fund; and \$51 million for technical assistance. The House did not provide a set-aside for the demolition of obsolete public housing units since they provided HOPE VI funding, which can be used for that purpose (see below). However, the House did provide for \$429 million to be set aside from the funds available for formula allocation to be distributed to those PHAs who had obligated all of the Capital Funds they had received for FY2001 and FY2002. This "timely expenditure bonus" was included in the FY2003 appropriations bill and is designed to reward those housing authorities who are fully utilizing their Capital Fund allocations.

The Senate-passed bill would provide \$2.6 billion for the Capital Fund for FY2004, an amount less than the House-passed level and equal to the amount requested by the Administration. While the Senate did not adopt the Administration's PHRI initiative, the Appropriations Committee did voice support for PHAs seeking private financing. To support their efforts, the Senate bill would establish a new public housing development loan guarantee program. The bill would allow the Secretary to make \$125 million of the Capital Fund available for a loan loss reserve and other purposes implementing the loan guarantee. In addition to the loan guarantee set-aside, the Senate bill would set aside \$400 million to provide timely expenditure bonuses.

The Omnibus bill would provide \$2.7 billion for the Capital Fund for FY2004. The bill does not accept the PHRI initiative, noting in report language that 92 PHAs already successfully leverage private funds. P.L. 108-199 also does not include the timely obligation set aside, noting that HUD has now implemented the provisions of a previous public housing reform bill (P.L. 105-276) that reward PHAs for timely expenditure and penalize them for slow expenditure.

HOPE VI Revitalization of Distressed Public Housing

The HOPE VI program funds the demolition and revitalization of deteriorated and distressed public housing. Since the inception of the HOPE VI program, HUD has approved the demolition of approximately 115,000 units of distressed public housing and the creation of over 66,000 rental and homeowner units. New housing created by HOPE VI must have a mixed-income tenancy—the poor, the not quite so poor, and some moderate-income households—in an effort to change the culture and eliminate the stigma of public housing. Authorization for the program ended at the end of FY2002; it was extended in FY2003 through the end of FY2004. The House Financial Services Committee passed H.R. 1614 to revise and reauthorize the HOPE VI program through FY2005. A Senate bill with HOPE VI provisions similar to H.R. 1614 (S. 811), passed the Senate on November 24, 2003.

For FY2004, the Administration requested no new funding for the HOPE VI program, which was funded at \$570 million in FY2003. The Administration argued that the program does not need

new funding for two reasons. First, the program's goals—namely the demolition of the nation's worst public housing—have largely been accomplished. Second, the program has some problem areas. One major problem with the HOPE VI program is the amount of time it takes to complete a project. Of the 195 projects funded since 1992, only 16 are completed and only half of the obligated funds have been spent. Another problem with the HOPE VI program is the displacement of former residents. Few families whose units have been demolished under HOPE VI come back to live in the revitalized housing and little is known about what happens to them.

Despite these concerns, the HOPE VI program is one of the most popular programs under HUD's jurisdiction. Many advocacy groups and Members of Congress have spoken out on behalf of the program. They argue that need for the program is still great and that instead of ending the program, HUD should work with Congress to improve it so that it can continue to transform the most distressed public housing in the nation.

The House bill would provide \$50 million for the HOPE VI program, \$5 million of which would be available for technical assistance. The Senate would provide \$195 million for HOPE VI, \$3 million of which would be available for technical assistance. P.L. 108-199, the Omnibus appropriations bill, would provide \$150 million for HOPE VI—\$4 million of which would be for technical assistance.

Native American Block Grants

This block grant program provides tribes or tribally designated housing entities with a flexible source of funding for low-cost housing and related activities. As provided in the Native American Housing Assistance and Self-Determination Act (P.L. 104-330), block grant funds may be used for a wide range of homeownership and rental activities. The Administration's FY2004 budget requested \$646.6 million, about \$2 million more than enacted in FY2003.

With unemployment that usually far exceeds the national average in many Indian and Native communities, the Senate Appropriations Committee report for FY2003 (S.Rept. 107-222) directed HUD and its grantees to give primary consideration to qualified Native owned firms in the design and construction of Indian housing.

The House bill recommended \$661.6 million for FY2004, an increase of \$15 million above HUD's request and \$16.8 million more than provided in FY2003. The Senate approved \$646.6 million, the same as the budget request. The Senate bill, however, directed that each grant recipient receive the same percentage of funding as was received in FY2003. The Omnibus appropriates \$654.1 million. HUD is directed to submit a report by December 15, 2004 on the extent of black mold infestation of Native American housing, and recommendations to address this problem.

Community Planning and Development

Housing for Persons with AIDS (HOPWA)

The President requested \$297 million for the HOPWA program for FY2004, up from the \$290 million enacted in FY2003. The House bill would fund HOPWA at \$302 million, \$5 million above the President's requested level. This increase was added on the House floor and was offset by a reduction in National Science Foundation funding. The Senate bill would provide \$291 million, less than the President's request and the House-passed level. P.L. 108-199, the Omnibus appropriations bill, would provide \$297 million for HOPWA.

HOPWA provides housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. Funding is distributed both by formula allocation and competitive grants to states, localities and nonprofit organizations. HOPWA funds may be used for housing information services, resource identification to establish and coordinate housing assistance resources, to acquire, rehabilitate or lease housing and services, to construct single room occupancy dwelling and community residences, for rental assistance and for short-term rental assistance. Funds may also be used for mortgage or utility payments to prevent homelessness of a tenant or mortgagor and for supportive services including health, mental health, drug and alcohol abuse treatment and counseling, day care, nutritional services and assistance in gaining access to local, state and federal government benefits.

For more information on HOPWA, see CRS Report RS20704, *Housing Opportunities for Persons with AIDS* (HOPWA).

Rural Housing and Economic Development

The FY1999 HUD Appropriations Act (P.L. 105-276) established within HUD an Office of Rural Housing and Economic Development to support housing and economic development in rural areas. Congress provided \$25 million in each of FY2001 and FY2002, and just short of \$25 million in FY2003. However, the Administration did not request funds in FY2002 and FY2003, and did not do so for FY2004, arguing that many of the agency's core programs, such as CDBG, already serve rural communities, and because other Departments like the U.S. Department of Agriculture have very large and effective programs already in place to address rural housing and economic development issues. However, both the House and Senate Appropriations Committees have continued to appropriate funds in recent years, believing that this housing program is sufficiently different from Department of Agriculture programs to merit separate appropriations.

H.R. 2861 proposed \$25 million for the Rural Housing and Economic Development program for FY2004, requiring that HUD award funds for this program by June 30, 2004. The Senate also recommended \$25 million. The Omnibus also appropriates \$25 million, requiring that HUD award funds competitively, as proposed by the House.

Empowerment Zones and Enterprise Communities

Spend-outs have been much slower than projected for these programs. The Administration proposed no funding for Empowerment Zones/Enterprise Communities (EZs/ECs) for FY2003 (although Congress appropriated close to \$30 million) and proposed no funding for FY2004, concluding that this program has not been sufficiently effective.

This federal initiative is an interagency effort to promote economic development and community revitalization in distressed areas, by directing tax relief and federal funds to designated EZs and ECs. EZs and ECs are eligible for a variety of tax credits and other incentives intended to stimulate investment, economic growth, and revitalization activities. Grants are used for activities that assist residents and businesses, including workforce preparation and job creation efforts linked to welfare reform; neighborhood development; support for financing capital projects; financing of projects in conjunction with Section 108 loans or other economic development projects. Funds are also used for rental assistance and other housing assistance.

To date, there have been three rounds of EZ/EC designations. In the first round, nine communities (six urban and three rural) were designated as Empowerment Zones; and 95 communities were named as Enterprise Communities. Twenty new Empowerment Zones—15 urban and five rural—were designated in the Round II competition, along with 20 new Enterprise Communities, all rural. The Community Renewal Tax Relief Act of 2000 (P.L. 106-554) authorized the designation

of 40 renewal communities (28 urban and 12 rural) and nine new Round III Empowerment Zones (seven urban, two rural) designated on December 21, 2001, which utilize only tax incentive provisions.

In FY2002, \$45 million was approved for urban EZs—\$3 million each for the 15 Round II zones designated by HUD. The Administration's FY2003 budget proposed no funding for Round II Empowerment Zones because after four years of funding, major balances of unused funds had been built up. To help develop the economies of distressed urban and rural areas, HUD has recently designated 40 Renewal Communities (RZs) and seven additional Round II urban Empowerment Zones. Private investors in both RZ and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations.

P.L. 108-7 included \$30 million for Round II EZ-designated communities with \$2 million allocated to each of the 15 empowerment zone communities. Both the Senate and House recommended an appropriation of \$30 million for this program for FY2003, \$15 million less than enacted for FY2002 and \$30 million more than the President's budget requested. The conference report argued that, consistent with Round I empowerment zone funding, this program should be classified as mandatory spending rather than an obligation of the VA-HUD appropriations bill. During its consideration of the bill, the Senate Appropriations Committee also expressed concern over accountability in this program and noted that the HUD Inspector General has been critical about how communities have implemented this program and used EZ funds.

The House-passed bill, H.R. 2861, recommended \$15 million for FY2004 for continued grant funding for the 15 urban Round II EZ/ECs. The Senate did not include funding for the program for FY2004 while the conference agreement appropriates \$15 million for Round II EZ/ECs. The omnibus conference agreement directs HUD to implement the recommendations resulting from the HUD Inspector General's audit of Round II recipients and to provide a status report to Congress no later than March 1, 2004.

Community Development Block Grants

The Community Development Block Grant (CDBG) program is the largest source of federal financial assistance in support of state and local governments' community development and neighborhood revitalization activities. The program was first authorized by Congress under Title I of the Housing and Community Development Act of 1974, P.L. 93-383, and now stands as the federal government's longest running block grant.³

During its 29-year history, the program has undergone some changes, but its structure and focus have remained essentially unchanged. The program promotes local decision making in the development of community development plans intended to principally benefit low- or moderate-income persons, aid in preventing or eliminating slums and blight, or meeting urgent needs threatening the health and safety of the public. CDBG funds are allocated by formula to 1,082 entitlement communities, states, and the Commonwealth of Puerto Rico. After funds are set aside to fund a number of related categorical programs, 70% of the remaining funds appropriated are allocated by formula to CDBG entitlement communities while states share the remaining 30%.

FY2004 Funding Proposal

The Bush Administration's FY2004 budget proposed \$4.716 billion for the Community Development Fund (CDF), which includes CDBG formula grants to states and entitlement communities and related programs. The Bush Administration's budget request included \$280

³ 42 U.S.C. 5301

million for program set-asides, and \$4.436 billion in CDBG formula-based grants to entitlement communities and states. The Administration's budget request proposed an increase in the formula-based portion of the program by \$96.5 million for FY2004. The Administration also recommended the conversion of Section 107 funding for insular areas into a formula-based allocation. The Administration's budget did not include funding for Neighborhood Initiative or Economic Development Initiative grants, two categorical programs that recently have been used exclusively to fund congressionally earmarked projects.

Within the context of HUD's total budget request for FY2004, the Administration sought to allocate 15% (\$4.7 billion) of the HUD proposed \$31.1 billion budget to programs funded under the CDF account. Within the CDF account, CDBG formula grants to the states and entitlement communities would account for 93.6% of the CDF budget request while set-asides and earmarks would account for 6.4% of the request.

The Administration also requested \$16 million in funding for its *Colonias* Gateway Initiative (CGI), a proposal that was first included in its FY2003 budget request within the Community Development Fund but was proposed for FY2004 as a separate program. This southwest regional initiative would have targeted assistance to communities in Texas, New Mexico, Arizona, and California within 150 miles of the border with Mexico. Funds would be used for housing, infrastructure, and economic development projects in these distressed areas.

The following table provides a breakdown of the actual FY2003 appropriations and the Administration's FY2004 proposed budget request for the CDF account and the recommendations of the House as outlined in H.R. 2861 and the accompanying H.Rept. 108-235, the Senate as outlined in S. 1584, and the accompanying S.Rept. 108-143, and the conference committee as outlined in H.R. 2673 and the accompanying conference report (H.Rept. 108-401).

Table 10. Community Development Fund Appropriations, CDBG and Related Set Asides: FY2003-FY2004

(funding in millions)

Programs and set-asides	FY2003	FY2004			
	enacted	request	House	Senate	Conf.
<i>Subtotals:</i>					
<i>Set-asides (see below for details)</i>	565.4	280.0	420.4	404.3	593.5
<i>Formula-based (entitle. communities)</i>	3,037.6	3,100.3	3,177.0	3,181.9	3,049.6
<i>Insular areas</i>	0.0	7.0	0.0	0.0	0.0
<i>Formula-based (state allocation)</i>	1,301.9	1,328.7	1,361.6	1,363.7	1,306.9
<i>Set-asides:</i>					
Indian Tribes	70.5	72.5	72.0	72.5	72.0
Housing Assistance Council	3.3	3.0	3.3	3.3	3.3
Nat'l American Indian Housing Council	2.4	2.2	2.4	2.6	2.5
Nat'l Housing Development Corporation	5.0	0.0	5.0	0.0	5.0
- Operating expenses	(2.0)	(0.0)	(2.0)	0.0	(2.0)
Nat'l Council of La Raza HOPE Fund	5.0	0.0	5.0	0.0	5.0
- Technical assistance	(0.5)	(0.0)	(0.5)	0.0	(0.5)

- HOPE Fund, other activities	(4.5)	(0.0)	(4.5)	0.0	(4.5)
Section 107	48.8	37.9	43.0	52.5	52.0
<i>Insular areas</i>	<i>(7.0)</i>	<i>(0.0a)</i>	<i>(7.0)</i>	<i>(7.0)</i>	<i>(7.0)</i>
<i>Prog. management and analysis</i>	<i>(0.0)</i>	<i>(3.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>
<i>Technical assistance</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(1.5)</i>
<i>Native Hawaiian Hous. Block Grant</i>	<i>(9.5)</i>	<i>(0.0)</i>	<i>(9.5)</i>	<i>(10.0)</i>	<i>(9.5)</i>
<i>University Programs</i>	<i>(32.3)</i>	<i>(31.9)</i>	<i>(26.5)</i>	<i>(34.5)</i>	<i>(36.0)</i>
<i>Historically Black Coll. & Univ.</i>	<i>(9.9)</i>	<i>(10.0)</i>	<i>(10.0)</i>	<i>(11.0)</i>	<i>(10.5)</i>
- HBCU technical assistance	0.0	(3.0)	(2.0)	(2.0)	(2.0)
<i>Hispanic Serving Institutions</i>	<i>(6.4)</i>	<i>(5.5)</i>	<i>(6.5)</i>	<i>(7.5)</i>	<i>(7.0)</i>
<i>Community Develop. Work Study</i>	<i>(3.0)</i>	<i>(3.0)</i>	<i>(3.0)</i>	<i>(3.0)</i>	<i>(3.0)</i>
<i>Alaskan Native and Native Hawaiian Serving Institutions</i>	<i>(3.0)</i>	<i>(2.4)</i>	<i>(0.0)</i>	<i>(4.0)</i>	<i>(3.5)</i>
<i>Tribal Colleges and Universities</i>	<i>(3.0)</i>	<i>(3.0)</i>	<i>(0.0)</i>	<i>(3.0)</i>	<i>(3.0)</i>
<i>Community Outreach Partnership</i>	<i>(7.0)</i>	<i>(8.0)</i>	<i>(7.0)</i>	<i>(4.0)</i>	<i>(7.0)</i>
<i>Working Capital Fund, develop. of information technology systems</i>	<i>3.4</i>	<i>4.9</i>	<i>4.9</i>	<i>0.0</i>	<i>0.0</i>
<i>Wellstone Ctr. for Community Building</i>	<i>8.9</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Self-Help Homeownership Opportunity</i>	<i>25.1</i>	<i>65.0</i>	<i>28.0</i>	<i>12.0</i>	<i>27.0</i>
- Capacity building	(0.0)	(3.0)	(0.0)	(0.0)	(0.0)
<i>Capacity Building for Community Development and Affordable Housing</i>	<i>28.1</i>	<i>25.0</i>	<i>33.2</i>	<i>35.5</i>	<i>34.8</i>
<i>Nat'l Comm. Devel. Initiative (NCDI)b</i>	<i>(23.1)</i>	<i>(20.0)</i>	<i>(28.2)</i>	<i>(31.5)</i>	<i>(30.0)</i>
- Rural area and tribal landsc	(5.0)	(5.0)	(5.0)	5.0	5.0
<i>Habitat for Humanity</i>	<i>4.2</i>	<i>4.5</i>	<i>5.0</i>	<i>(4.0)</i>	<i>(4.8)</i>
- Indian tribes SHOP	(0.0)	(0.0)	(0.7)	(0.0)	(0.6)
<i>Neighborhood Initiative Demonstration</i>	<i>41.8</i>	<i>0.0</i>	<i>21.0</i>	<i>21.0</i>	<i>44.0</i>
<i>Youthbuild</i>	<i>59.6</i>	<i>65.0</i>	<i>65.0</i>	<i>60.0</i>	<i>65.0</i>
- Rural and underserved areas	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
- USA capacity building	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
<i>Economic Development Initiative</i>	<i>259.3</i>	<i>0.0</i>	<i>137.5</i>	<i>140.0</i>	<i>278.0</i>
Total: CDF, CDBG	4,904.9	4,716.0	4,959.0	4,950.0	4,950.0

Source: H.Rept. 108-401

Note: Totals may not add due to rounding. Amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199. Italics indicates entries subsumed under CDBG line in **Table 6**; parenthesis indicates entry subsumed in this table under summary line immediately above.

- Insular areas would be included in formula portion of the CDBG program and would not be included as a set aside under Section 107 (Special Purpose Grants).
- Includes funding for the Enterprise Foundation and the Local Initiative Support Corporation in support of local community development corporations.

- c. For FY2003, \$5 million of NCDI program funds were set-aside for rural areas and tribal lands, and similar treatment was proposed in the FY2004 request and in the House bill. Conferees adopted the Senate recommendation that the \$5 million be specified separately.

H.R. 2861, as passed by the House on July 25, 2003, recommended a total CDF appropriation of \$4.959 billion, including \$4.539 billion for the formula portion of the CDBG program, and \$420.4 million in set-asides and earmarks. The House bill included \$137.5 million in earmarked funds under the Economic Development Initiative, which represents 32.7% of the funds targeted for earmarks and set-asides. In addition, the House bill recommended \$26.5 million in university-based community development programs intended to encourage collaborative efforts between institutions of higher education and their surrounding neighborhoods and support professional training of minority students in the fields of housing, planning, and community and economic development.

As approved by the House, H.R. 2861 would have appropriated \$243 million more in total CDF funds than the \$4.716 billion requested by the Administration and \$125.2 million more in set-asides and earmarks. The Senate version of the bill proposed an additional \$234 million more in CDF funds than requested by the Administration including \$124.3 million more in set-asides and earmarks. Most notably, the House bill included \$137.5 million in Economic Development Initiative (EDI) funded earmarks and the Senate bill included \$140 million in funding for such activities, while the Administration's budget request did not include funding for the program. The omnibus conference agreement appropriates \$234 million more than requested by the Administration and includes a total of \$593.5 in set-asides and earmarks. This includes \$278 million in EDI funds for 902 projects.

Earmarks and Set-Asides

The Administration's proposed increase in entitlement funding and its *Colonias* Gateway Initiative were to be offset by eliminating funding for two CDF-related set-asides, notably, the Economic Development Initiative (EDI), which received \$259.3 million in FY2003, and the Neighborhood Initiative (NI), which received \$41.8 million in FY2003.

In the recent past, both programs have routinely been used by some Members of Congress to earmark funding for specific projects. Organizations representing entitlement communities and states, along with this and previous Administrations, have objected to these earmarks on the grounds that they are noncompetitive, and reduce the amount of funds available under the formula portion of the CDBG program for distribution to entitlement communities and states. EDI grants are used to fund projects intended to improve the economic outlook within the communities within which the projects are located. The NI grants support projects intended to stimulate economic diversification and investment in areas experiencing population out-migration, improve conditions in blighted and distressed neighborhoods, or facilitate the integration of housing assistance with welfare reform initiatives.

For FY2003, EDI assistance was earmarked for more than 850 specific projects identified in the conference report accompanying the FY2003 VA-HUD, and Independent Agencies Appropriations Act (P.L. 108-7). For FY2003, the \$565.4 million used to fund CDBG-linked categorical programs represented 11.5% of the \$4.9 billion appropriated under the Community Development Fund account, compared to 6% of the Administration's CDF budget proposal for FY2004. The \$301.1 million in combined FY2003 appropriations for NI and EDI grants represent more than half (53%) of the \$565 million Congress appropriated for CDBG-linked set-asides and earmarks. As noted earlier, the Administration has requested no funding for these two programs for FY2004.

For FY2004, the House bill (H.R. 2861) recommended \$137.5 million for EDI projects and \$21 million for NI activities while the Senate bill includes \$140 million for EDI and \$21 million for NI activities. Combined, these programs represent 37.7% of the \$420.4 million in CDF set-asides and earmarks recommended by the House and 39.8% of the \$404 million in set-asides and earmarks proposed by the Senate. The conference agreement includes \$278 million for EDI projects and \$44 million for NI projects. Combined, these two programs account for 54.3% of the total \$595 million in recommended CDF set-asides and earmarks.

The conference agreement does not include funding for the Administration's \$16 million *Colonias* Gateway Initiative. The Administration in its FY2004 budget submission did not request additional loan commitments for the Section 108 loan guarantee program. The report accompanying the House bill, H.R. 2861, assumed that \$6,000,000 in unobligated balances from prior year credit subsidy appropriations and \$189,344,000 in unused loan commitment authority would be available in FY2004 for new Section 108 loan commitments. This assumption was based on estimated usage of funds appropriated in FY2003. The conference agreement adopted a provision from the Senate bill that was not in the House version, that recommends an appropriation subsidy of \$7.325 million in support of \$275 million in Section 108 loan guarantee authority.

Brownfields Redevelopment

The Administration did not request funding for the Brownfields Redevelopment program in FY2004, citing ineffective performance. In the past several years this program has been funded as a separate line item in the budget at or close to \$25 million. But because of lower than expected interest in the program, slow expenditures of funding, and very lengthy time-frames to produce actual results, the Administration recommends that the program be transferred to the Environmental Protection Agency and combined with its Brownfields program. The Administration also points out that the redevelopment of brownfields can occur through the use of Community Development Block Grant funds.

Brownfields redevelopment funds are used to reclaim abandoned and contaminated commercial and industrial sites. Administration estimates place the number of eligible brownfields sites at 450,000 nationwide. Funds are used to finance job creation activities that benefit low and moderate income persons, and funds have been used in conjunction with Section 108 loan guarantees and with EPA brownfields cleanup efforts. In HUD's FY2003 budget, the agency supported decoupling the brownfields program from the Section 108 loan guarantee program, believing that this would attract more participants.

During the 107th Congress, the House approved legislation, the Brownfields Development Enhancement Act (H.R. 2941), that would no longer require that communities receive Section 108 loan guarantees as a condition for the receipt of Brownfields Economic Development Funds, believing that this would make it easier for communities to gain access to brownfields funding. However, P.L. 108-7 included a \$25 million appropriation for brownfields projects, maintaining the program's present structure—which requires that funds must be used in coordination with CDBG Section 108 loan guarantees. In addition, the Act requires that HUD award such funds on a competitive basis.

Both the House and Senate recommended \$25 million for Brownfields Redevelopment, disagreeing with the Administration that the current program is duplicative of brownfields activities funded through the Environmental Protection Agency. To avoid duplication, the Committee report notes that it expects HUD to closely coordinate its efforts with EPA. The

Omnibus appropriates \$25 million and reminds HUD that these funds are to be distributed on a competitive basis.

The HOME Investment Partnership Program

For FY2004, the Administration requested \$2.197 billion for the HOME Program, \$210 million more than enacted in FY2003. The House-approved bill, H.R. 2861, would have provided \$2.064 billion for the program. The Senate approved bill, S. 1584, would have provided 1.975 billion for the program, \$12 million less than the FY2003 enacted level and \$222 million less than the budget request. The omnibus conference agreement provides \$2.017 billion for the program.

The HOME block grant program makes funds available to participating jurisdictions to increase the supply of low-cost rental housing and homeownership opportunities for low-income families. Jurisdictions have considerable flexibility in the use of these funds, but all households assisted must have incomes below 80% of the area median; and 90% of renters receiving assistance must have incomes below 60% of the median. Funds can be used to help new homebuyers. Both homebuyers and renters can be helped through the rehabilitation of substandard housing and new construction. Funds may also be used for tenant-based rental vouchers. Some HOME funds are used with the HOPE VI program and with the Low-Income Housing Tax Credit. According to HUD budget documents, since its beginning in 1992, HOME funds have been used to construct or rehabilitate more than 250,000 rental units, and have provided direct rental assistance (vouchers) to more than 73,000 households.

The Administration requested a \$200 million set-aside within HOME for the “American Dream Downpayment Initiative” (H.R. 1276) to assist low-income homebuyers with downpayments for the purchase of their first home. The same amount was requested in the FY2003 budget, and \$75 million was enacted. H.R. 2861 would provide \$125 million for the program as a set-aside within HOME. S. 1584 would provide \$50 million, with the Senate noting its objection to any proposals by HUD which would tie the use of HOME funds for homeownership to the allocation of funds under the American Dream Downpayment Fund. The conference agreement provides \$87.5 million for the program. Language is included which would require that funds be distributed by a formula established by HUD which, among other things, takes account of a jurisdiction’s need for and prior commitment to assistance to homebuyers. Language is also included which requires that funds be distributed in accordance with the terms established in new authorization legislation, should such legislation be enacted prior to April 15, 2004.

The Administration requested that Housing Counseling Assistance be funded at \$45 million, an increase of \$5 million over the FY2003 level. Instead of being funded within the HOME program, the Administration requested that counseling be funded in a new free-standing appropriation account under the Housing Programs section of the HUD budget. The same program change was requested in the FY2003 Budget, but Congress voted to keep the counseling program within the HOME program. The House and Senate appropriations bills, and the omnibus conference agreement would fund the program at \$40 million within the HOME program. The Senate urges HUD to use the program as a means of educating homebuyers on the dangers of predatory lending in addition to the stated purpose of expanding homeownership opportunities.

The Administration regards counseling as an important part of advancing its goal of increasing homeownership and also notes the importance of rental counseling. The Budget estimates that the proposed funding would provide 550,000 families with home purchase and homeownership counseling and provide 250,000 families with rental counseling. An increased emphasis would be placed on providing counseling through the funding of national and regional intermediary organizations, and an increased percentage of funds would be awarded to such organizations.

The Administration also proposed a new Innovative Lead Hazard Demonstration program as a \$25 million set-aside within HOME to eliminate lead-based hazards in homes of low-income children. This would be used to help develop creative ways of identifying methods of eliminating lead-based paint hazards that could serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows. The House and Senate bills, and the omnibus conference agreement do not include funding for the Lead Hazard Demonstration program.

Homeless Assistance Grants

Homeless Assistance Grants is the blanket title given to the four homeless programs authorized by the McKinney-Vento Homeless Assistance Act (P.L. 100-77) and administered by HUD. Three of the four programs are competitive grant programs: the Supportive Housing Program (SHP), the Shelter Plus Care program (S+C) and the Single Room Occupancy program (SRO). Funding for the fourth HUD program, the Emergency Shelter Grants program (ESG), is distributed via a formula allocation to states and local communities.

For FY2004, the Administration proposed combining the competitive Homeless Assistance Grants into one consolidated competitive program; the ESG program would remain a formula allocation. The Administration requested \$1.33 billion for homeless assistance in FY2004. This would be an increase over the \$1.2 billion for homeless assistance grants provided in FY2003. The amount requested for FY2004 would include: \$150 million for the ESG program, \$194 million for S+C renewals, \$12 million for technical assistance (including homeless management information systems—HMIS), \$2.6 million for the Working Capital Fund and \$1.5 million for the Interagency Council on Homelessness.

The Administration proposed that the Emergency Food and Shelter program (EFSP), which is currently administered by the Federal Emergency Management Agency (FEMA), be transferred from the Department of Homeland Security to HUD in FY2004. This transfer was proposed in the FY2003 budget, but was not adopted. For FY2004, \$153 million was requested for the EFSP.

The Administration's FY2004 budget also requested \$50 million for a new Samaritan Housing program. This program, which would be conducted in conjunction with the Departments of Health and Human Services and Veterans Affairs, would focus on the chronic homeless population through aggressive outreach. Both the Secretary of HUD and the President have made a commitment to end chronic homelessness in 10 years. The Administration stated that it would submit legislation to amend the McKinney-Vento Homeless Assistance Act of 1987 to include the Samaritan Housing program.

The House appropriations bill, H.R. 2861, would provide \$1.24 billion for the existing Homeless Assistance Grants programs, about \$9 million less than the Administration's request. Of this amount, 30% of the funds not dedicated to S+C renewals must be used for permanent housing, under the House language. No language in the House bill or report refers to the consolidation of the competitive homeless programs; however the bill does direct the Secretary to fully renew all S+C vouchers. This amount does not include funding for the President's proposed Samaritan Initiative, which the House chose not to adopt since the authorizing legislation had not yet been introduced. The House does not adopt the President's request to transfer the EFSP program from FEMA to HUD.

The Senate version of the HUD spending bill would provide \$1.325 for Homeless Assistance Grants, slightly less than the Administration's request, but more than proposed by the House. Of that amount, 30% of the non-S+C dollars would be required to be spent on permanent housing and \$12 million would be set aside to support the Homeless Management Information System

(HMIS), which HUD has been developing to collect nationwide data on the homeless, and other technical assistance.

P.L. 108-199, the Omnibus appropriations bill, provides \$1.27 for Homeless Assistance Grants in FY2004. Of that amount, \$12 million will be available for HMIS and \$3 million will be available for additional information technology systems. Again, 30% of funds not used to renew S+C contracts must be spent on permanent housing, according to the bill.

The homeless assistance programs are intended to help homeless persons and families break the cycle of homelessness and move to permanent housing and self-sufficiency. HUD's Continuum of Care (CoC) process encourages the creation of linkages to other housing and community development programs including public housing, Section 8, Community Development Block Grants, HOME, Housing Opportunities for Persons with AIDS, and state and local programs. In addition, the strategy promotes direct links to mainstream social service programs critical to the success of homeless assistance efforts, such as Medicaid, State Children's Health Insurance Program, Food Stamps, Temporary Assistance for Needy Families (TANF), and services funded through the Mental Health and Substance Abuse Block Grant, Workforce Investment Act, and the Welfare-to-Work grant program.

For more information on federal homeless programs, see CRS Report RL30442, *Homelessness: Recent Statistics, Targeted Federal Programs and Recent Legislation*.

Housing Programs and Administration

Housing for Special Populations (Elderly and Disabled)

The Housing for Special Populations account is made up of two programs: the Section 202 program for the elderly and the Section 811 program for the disabled. They provide capital grants for the development of additional new subsidized housing for these populations. For FY2004, the Administration proposed abolishing the Housing for Special Populations account and replacing it with two separate accounts: Housing for the Elderly (Section 202) and Housing for the Disabled (Section 811).

The President proposed a funding level of \$774 million (for a total of \$783 million, including the reprogramming of \$9.7 million in unobligated funds from previous years) for housing assistance for the elderly in FY2004, the same amount as requested in the previous year. \$776 million was provided as direct appropriations in FY2003. HUD points out that an increasing number of the elderly living in Section 202 apartments have become frail and less able to live in rental facilities without some additional services.

Therefore, the Administration proposed that \$30 million of the appropriated amount be made available for construction grants to convert existing Section 202 units to assisted living facilities. This would allow individual elderly residents to remain in their units and maintain their independence as they age. The President proposed that another \$53 million of the appropriation be used to fund service coordinators who help elderly residents obtain needed supportive services from the community. Finally, the Administration proposed to transfer \$470,000 of the amount to the Working Capital Fund.

The Administration expressed concern in its FY2004 budget justification about the length of time it takes to develop a Section 202 property and the high cost of developing Section 202 units relative to private units. HUD stated that it would examine the program and propose changes to improve its performance to address the aforementioned concerns.

H.R. 2861, the House appropriations bill, agreed to split the Housing for Special Populations account. For the Housing for the Elderly account, the bill would provide \$773 million, slightly less than the Administration's request. However, the bill states that an additional \$16 million will be available for the account from excess funding provided in FY2003. The bill would set aside \$50 million for service coordinators, \$25 million to facilitate the conversion to assisted living.

The Senate bill would not split the Housing for Special Populations account, as proposed by the Administration. Instead, it would provide \$1.03 billion, of which \$783 million would be designated to provide housing for the elderly. Of that \$783 million, \$30 million would be available to facilitate the conversion to assisted living and \$50 million would be available for service coordinators.

The omnibus bill splits the two programs, as proposed by the House and the Administration, and provides \$778 million for the Housing for the Elderly account. The report language states that the conferees assume that an additional \$16 million from unobligated balances will be available for use in the program. The bill sets aside \$30 million to fund service coordinators and \$30 million for assisted living conversion grants and/or emergency capital repairs of Section 202 properties. Note that the omnibus report language indicates that \$50 million should be set aside for service coordinators. According to appropriations committee staff, the \$30 million figure in the bill language is the result of an error. However, HUD has assured the committee that they have sufficient funds in unobligated balances from previous years to fully fund the service coordinators account in FY2004.

The Administration requested \$251 million for the Housing for the Disabled account (Section 811), which is the same level at which the program was funded in FY2003. Like last year, up to 25% of the funds for the disabled could be used for vouchers to give disabled individuals more flexibility and choice so they could live in mainstream rental housing.

Like the Section 202 program, the Section 811 program was cited in the FY2004 budget justification as needing reform. Out of concern regarding how slowly grantees spend Section 811 funds, the Administration included in its justification a list of program reforms, which it intends to pursue in FY2004. They include: coordinating Section 811 funded vouchers with the Administration's HANF proposal; expanding the eligible uses of Section 811 funds; giving preference to applicants who leverage funds from other sources; providing a preference for smaller-scale projects; requiring grantees to use funds in a timely manner or face recapture; and allowing the Secretary the authority to waive regulatory and statutory provisions in order to streamline the program.

The House appropriations bill, H.R. 2861, would provide \$251 million for the Section 811 Housing for the Disabled program. The bill notes that an additional \$6 million is also available in this account from FY2003 excess funds. The bill maintains the 25% voucher flexibility, but would not grant the Secretary the requested waiver authority.

As noted earlier, the Senate bill would not split the Housing for Special Populations account into two accounts, as proposed by the Administration. Of the \$1.03 billion the Senate would provide, \$251 million would be available for housing for the disabled. Like the House, the Senate would allow up to 25% of these funds to be used to provide vouchers to the disabled.

The Omnibus bill, which splits the Section 202 and Section 811 accounts, funds housing for the disabled at \$251 million in FY2004. Of that amount, up to 25% could be used to create vouchers.

Federal Housing Administration (FHA)

The FHA is an insurance program that makes homeownership possible for individuals and families who lack the savings, credit history, or income to qualify for a conventional home loan. HUD reports that in 2003, FHA insured \$120 billion of mortgages for 1.3 million households, 700,000 of them first-time homebuyers. Thirty-seven percent (260,000) were minority households. The insurance premiums (receipts) paid by homebuyers (or those refinancing a mortgage) pay the cost of the principal program of the FHA program, the Mutual Mortgage Insurance (MMI) account, although spending of these receipts is subject to annual appropriations acts.

Since the early 1990s, the MMI program has contributed a substantial surplus of funds to the federal government, and will add an estimated \$2.9 billion in FY2004. Since FY2002, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) have determined that FHA receipts under the MMI account should be classified within the discretionary rather than the mandatory part of HUD's budget. According to CBO, the reclassification has no effect on the amount of budgetary resources available to HUD, and the MMI program will continue operating as it did prior to the reclassification. Mandatory spending must comply with the pay-as-you-go rules of the Budget Enforcement Act (BEA) (P.L. 101-508), while discretionary spending must comply with the BEA's discretionary spending caps.

For FY2004, the Administration requested and Congress has agreed to provide a commitment to insure up to \$185 billion under the FHA Mutual Mortgage Insurance and Cooperative Housing Mortgage Insurance (MMI/CHMI) fund, an increase of \$20 billion over the level approved for FY2003.

The Administration said it would propose legislation that would permit FHA to insure loans to borrowers that, due to poor credit ratings, would not ordinarily qualify for FHA-insured loans. Such borrowers would either be unable to obtain loans, or would obtain loans at higher interest rates on the sub-prime mortgage market. Under the proposed initiative, borrowers would also be able to obtain FHA-insured loans to help them keep their present home or for home purchase. The proposal is projected to generate loans for an additional 62,000 homes. However, the proposal was rejected by the House.

In the administrative provisions of the Senate bill, the Senate would permit FHA to insure loans to borrowers with credit impairments. FHA would be permitted to establish higher downpayment requirements for such borrowers, and FHA would be permitted to collect an annual insurance premium of up to 1% of the loan balance. FHA would have the option of reducing the insurance premiums for individual borrowers based upon their payment record on the FHA-insured loan. The loans would be insured under the Mutual Mortgage Insurance Fund.

The conference agreement does not include these provisions. While the conferees support efforts to assist low-income families in repairing negative credit histories, the conferees argue that HUD needs to do something about the escalating default rate in its FHA single-family mortgage insurance programs before it assumes the new risk posed by those with credit problems.

The Budget, H.R. 2861, S. 1584, and the conference agreement would provide a loan limitation of \$50 million for direct loans under the MMI/CHMI fund, a \$50 million reduction from the FY2003 level. The direct loans are made to nonprofit and governmental entities for the purchase of HUD-owned single family properties which had been insured under the fund.

The Budget, H.R. 2861, S. 1584, and the conference agreement would provide \$15 million for the subsidy cost of loan guarantees under the General Insurance and Special Risk Insurance (GI/SRI) fund which would subsidize up to \$25 billion in insurance commitments on loans under the fund,

an increase of \$1 billion over the level approved for FY2003. The credit subsidy is based on the net cost to the government, exclusive of administrative expenses, of a direct loan or loan guarantee over its full term, discounted to the present value at the Treasury's borrowing cost.

The Budget, H.R. 2861, S. 1584, and the conference agreement propose a direct loan limitation of \$50 million for the GI/SRI fund, the same limit as in FY2003. Up to \$30 million would be used to facilitate the sale of HUD-owned multifamily properties. Up to \$20 million would be used to facilitate the sale of HUD-owned single family properties to non-profit and governmental agencies for the ultimate resale to low- and moderate-income borrowers.

The Budget, H.R. 2861, S. 1584, and the conference agreement request administration expenses of \$359 million for the MMI/CHMI accounts, an increase of \$13 million over the FY2003 level. The Budget, H.R. 2861, and S. 1584 request administration expenses of \$229 million for the GI/SRI accounts, an increase of about \$7 million over the FY2003 level.

The Administration proposes to reduce the annual mortgage insurance from 57 basis points to 50 basis points on the Section 221(d)(4) multifamily rental housing projects. HUD estimates that the program will produce 42,000 new rental housing units annually, and that most of them will be affordable to moderate-income families.

The Senate Committee notes that it remains concerned that HUD has failed to calculate adequately the amount of credit subsidy needed to support its multifamily mortgage insurance programs. The Committee notes that it expects HUD to institute a computer program that accurately identifies the risk of default and financial risk to the insurance fund. The Committee also directs HUD to issue any changes in insurance premiums through notice and comment rule making, as required by law.

The Senate Committee notes its disappointment in FHA's failure to notify the appropriate Congressional committees that FHA may not have had adequate authority to cover loan commitments for its FHA Single Family Mortgage Insurance program for the remainder of FY2003. The Committee notes its concern that Congress was never notified regarding the potential risk of termination to this homeownership program. To ensure proper notification in the future, the Committee directs HUD to continue submitting reports required by section 3(b) of P.L. 99—289 as well as weekly updates to the House and Senate Committees on Appropriations regarding FHA's commitment levels following notification that the FHA's mortgage insurance commitments have exceeded 75% of the authorized limit.

The Senate Committee notes that 83% of the portfolio of the FHA Section 242 Hospital Insurance program is in the state of New York. The Committee is concerned that this focus in a single state constitutes unacceptably high risk and that the HUD should take steps to reduce that concentration in order to ensure the long-term viability of the program and mitigate risks for the General Insurance Fund.

The Committee directs HUD to report to the Committee by June 30, 2004 on its efforts to reduce geographic concentration of risk in the Section 242 program. The report should also identify alternatives to HUD's underwriting of hospitals, assess the overall financial risk to HUD in underwriting hospital insurance, determine how risk is assessed, find ways to mitigate and minimize this risk, assess the private and public investment in hospitals and healthcare facilities, and determine how the marketplace works in meeting the healthcare facility needs of rural and urban areas. HUD is directed to consult with the Department of Health and Human Services (HHS) on these issues for the final report.

In lieu of the Senate report language, the conferees note that legislation was recently enacted which will facilitate the availability of Section 242 loans in other states, and that this should help

to geographically diversify the program. The conferees direct HUD, in consultation with HHS, to report to the Appropriations Committees, by August 15, 2004, on its efforts to geographically diversify the program. HUD is directed to assess the financial risk that the Section 242 program poses to the FHA insurance program, assess the importance of the Section 242 program in meeting the need for healthcare facilities as compared to other public and private funding options for these needs, provide recommendations for improving the program.

The Senate Appropriations Committee urges HUD to take more proactive steps to prevent foreclosures in its FHA single family programs. During the purchase of FHA-insured houses in revitalization areas, FHA is directed to require one or more of the following: an appraisal conducted by a state-certified appraiser, with experience in the market and certified by the city; a home inspection; or the presence of someone with a fiduciary responsibility to the buyer, such as a buyer's realtor, or other agent representing the buyer's interest. HUD is also urged to reinstitute its policy which required that new homes purchased with FHA insurance receive either an FHA-certified inspection or a 10-year insurance-backed warranty.

In its administrative provisions, S. 1584 would require that within 90 days of enactment of the bill, HUD would promulgate a regulation to institute a "good neighbor" policy in the disposition of multi-family housing which had been acquired by HUD through default and foreclosure. The regulation would provide that regardless of whether purchasing the property directly from HUD or through states or localities, prospective purchasers of the properties would be certified as being in compliance with state and local housing codes with regard to other properties owned by such purchasers. The intent of the regulation would be to prevent the sale of properties to parties demonstrating a pattern of owning housing with severe housing code violations. The provision was accepted by the conference committee.

Office of Federal Housing Enterprise Oversight (OFHEO)

HUD has oversight responsibilities for establishing Fannie Mae's and Freddie Mac's affordable housing goals and for monitoring their progress toward achieving those goals. Within HUD, OFHEO is the "safety and soundness" regulator for the Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. The FY2004 HUD budget proposes \$32.4 million in budget authority for the operation of OFHEO. The Omnibus appropriates \$39.9 million, an increase of \$7.5 million above the House recommended level to provide for one-time costs to conduct special investigations of the enterprises and for strengthening the examination and legal functions.

There has been increased criticism in recent months in the Congress and elsewhere of OFHEO for what some see as inadequate oversight of Fannie Mae and Freddie Mac. Legislation (H.R. 2575) has been introduced to move oversight from HUD to the Treasury Department.

The HUD budget request for FY2004 says that OFHEO intends to expand and be more aggressive in its oversight activities, including: reviewing GSE requests for approval of new programs; ensuring that the GSEs are consistent in their adherence to fair housing laws; providing an annual public use database on the GSEs' mortgage purchases—and reports and research on GSE activities; and the setting, monitoring and enforcement of GSEs' goals for the purchase of mortgages made to low- and moderate-income families, and mortgages on properties located in underserved areas.

In FY2003, legislation was proposed to remove OFHEO from the annual appropriations process and fund the organization directly. The idea was to place OFHEO on a par with other safety and soundness regulators such as the Federal Reserve Board, the Office of Thrift Supervision, and the Federal Housing Finance Board. P.L. 107-8 provided close to \$30 million for OFHEO, to be

funded by fees from Fannie Mae and Freddie Mac. HUD was directed to provide a detailed report to the Committee on Appropriations by August 15, 2003, detailing OFHEO's current staffing levels and corresponding responsibilities, and whether this is adequate to fully meet its regulatory mission.

The House bill, H.R. 2861, provided \$32.4 million for FY2004, to be offset to zero as fees are received from Fannie Mae and Freddie Mac during the fiscal year. The Senate bill, S. 1584, contained an amendment that increases the amount for OFHEO by \$7.5 million above the \$32.4 million approved by the Senate Appropriations Committee, for a total of \$39.9 million. This is \$7.5 million more than requested by the Administration. The Senate Appropriations Committee remains very concerned regarding the competency of the OFHEO office to provide the necessary financial oversight of Fannie Mae and Freddie Mac. As noted, the Omnibus increases the total appropriation to \$39.9 million.

Fair Housing

The Fair Housing Act makes it illegal to discriminate in the sale, rental, or financing of housing based on race, color, religion, sex, national origin, disability, or family status. HUD's FY2004 budget reiterates the Administration's commitment to fight against housing discrimination, and requests \$50 million for its two fair housing programs, nearly 10% above FY2003 funding of \$45.6 million. The Omnibus bill provides \$48.0 million instead of \$46 million as proposed by the House and \$50 million by the Senate.

The **Fair Housing Assistance Program (FHAP)** strengthens nationwide enforcement efforts by providing grants to state and local agencies to enforce laws that are substantially equivalent to the federal Fair Housing Act. It provides grants awarded annually on a noncompetitive basis. For FY2004, HUD requested \$29.7 million for FHAP. The Omnibus appropriates \$27.75 million.

The **Fair Housing Initiatives Program (FHIP)** provides funds for public and private fair housing groups, as well as state and local agencies, for activities that educate the public and housing industry about the fair housing laws, including accessibility requirements; investigate allegations of discrimination; help to combat predatory lending practices, and reduce barriers to minority homeownership. The Administration would fund FHIP at \$20.3 million in FY2004. The Omnibus provides \$20.25 million.

The FHIP program for FY2004 is structured to respond to the findings of the three-year National Discrimination Study and related studies, and will continue to support five special initiatives: Combating Predatory Lending includes support of programs to increase financial literacy. Education Outreach includes a major education and public awareness campaign to make individuals more aware of their rights and responsibilities under the Fair Housing Act.

Fair Housing in the Colonias is intended to help residents in the Colonias (areas within 150 miles of the Texas/Mexican border), many of whom are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in these areas. Faith-Based and Community Partnerships emphasize the participation of faith-based and community partners, recognizing the significant impact they can have on the implementation of fair housing laws.

Accessibility for Persons with Disabilities is an important Departmental priority within FHIP that promotes training for architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act.

The Senate Appropriations Committee report emphasized that state and local agencies under FHAP should have the primary responsibility for identifying and addressing discrimination in the sale, rental, and financing of housing and in the provision of brokerage services.

Lead-Based Paint Hazard Reduction

HUD proposed \$136 million for the Lead-Based Paint Hazard Control Program for FY2004, \$39.9 million less than the \$174.9 million enacted for FY2003. As noted above under the HOME program, there also is a new Innovative Lead Hazard Demonstration program proposed as a \$25 million set-aside within HOME to eliminate lead-based hazards in homes of low-income children.

Title X of the Housing and Community Development Act of 1992 (P.L. 102-550), authorized HUD to establish the Lead-Based Paint Hazard Control Grant program, to eliminate lead paint hazards in homes that are at risk of not being modified through normal renovation or demolition activities. Before 1997, funding for the lead hazard control grant program was provided under the Annual Contributions for Assisted Housing Account. In 1997 and 1998, the program was funded as a set-aside under the Community Development Block Grant account. Since 1999, the program has received appropriations as a separate, stand-alone program. Funds are distributed through competitive grants to entities that agree to match those federal grants.

Over the past decade, HUD has worked with local governments and agencies to increase the number of lead hazard control programs. However, millions of housing units occupied by lower income households remain contaminated with lead-based paint.

The House recommended \$130 million for the program, about \$45 million less than last year's funding of \$174.9 million. Included in the \$130 million, \$10 million was recommended for Operation LEAP (Lead Elimination Action Program), a new initiative requested in the budget to leverage private sector resources to eliminate lead-based paint hazards in low-income housing.

The Senate, citing lead poisoning from lead-based paint as the highest public health threat to children under the age of 6, recommended \$175 million, level with FY2003 funding. The Omnibus appropriates \$175 million, with \$96 million for the lead-based paint hazard control grant program to provide assistance to state and local governments and Native American tribes for lead-based paint abatement in private low-income housing. \$50 million is set-aside for an initiative to target lead abatement funds to areas with the highest lead paint measures. The omnibus conference report contains detailed language on this initiative.

Title III: Independent Agencies

Environmental Protection Agency

The President's FY2004 request for the Environmental Protection Agency (EPA) was \$7.631 billion, \$448 million (5.5%) less than the \$8.079 billion appropriated for FY2003. The House passed \$8.0 billion, the Senate \$8.2 and the conferees approved \$8.4 billion. Accounting for much of the proposed decrease was the Administration's decision to reduce funding by \$714 million for the State and Tribal Assistance Grants (STAG) account. About one-half of this decrease would have been derived from popular wastewater grants and the rest from assistance to State Revolving Funds used to support municipal wastewater infrastructure projects. Another major issue was the adequacy of the declining Superfund Trust Fund to fund cleaning up toxic waste sites.

Table 11. Environmental Protection Agency Appropriations, FY2000-FY2004 " " D
(budget authority in billions)

FY2000	FY2001	FY2002	FY2003	FY2004
\$7.4	\$7.8	\$8.08	\$8.08	\$8.4

Source: Figures for FY2000-FY2002 are from administration budget submissions of subsequent years; FY2003 and FY2004 are from H.Rept. 108-401. Actual final spending levels for any fiscal year include all supplemental appropriations or rescissions. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year.

State and Tribal Assistance Grants

How to meet the Nation's water infrastructure capital needs remained a primary appropriations issue for EPA. The Administration's proposed FY2004 level of \$3.121 billion for the State and Tribal Assistance Grants account was \$714 million, or 19%, less than the \$3.835 billion allocated in FY2003. Two decisions were behind this proposed decrease: the Administration not seeking continued funding for \$314 million in congressionally mandated FY2003 wastewater infrastructure grants and requesting \$400 million less to capitalize Clean Water State Revolving Funds (CWSRF) for which \$850 million is requested. All actions restored wastewater infrastructure funds, with the House approving \$3.6 billion, the Senate \$3.8 billion and the conferees \$3.9 billion. The \$850 million requested and approved for Drinking Water State Revolving Funds (DWSRF) is about the same as FY2003 funding.

For state and tribal administrative grants, the budget sought, and the final bill approves, \$1.2 billion, \$32 million more than enacted for FY2003; most state administrative grants would remain the same as provided in FY2003. Also part of the proposal, and approved by the conferees, was \$180 million in Brownfields Grants for contaminated sites with development potential. For FY2003, \$140 million was allotted for these grants.

Communities face major capital requirements for the construction of drinking water and wastewater facilities, and that remains the chief issue associated with the STAG account. By statutory design, most of the federal capital contribution to support these projects has been through payments to state funds from which states loan monies to communities. Since most localities are now borrowing their funding, any remaining direct grants listed above for special projects have become controversial.

Table 12. Appropriations: Environmental Protection Agency, FY2003-FY2004
(budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Science and Technology	.716	.731	.760	.716	.786
- transfer in from Superfund	.086	.045	.045	.045	.045
Subtotal: Science & Technology	.801	.776	.805	.761	.831
Environmental programs, compliance (management)	2.098	2.220	2.193	2.220	2.294
Office of Inspector General	.036	.037	.037	.037	.038
- transfer in from Superfund	.013	.013	.013	.013	.013
Subtotal: OIG	.048	.050	.050	.050	.051

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Buildings and facilities	.043	.043	.043	.043	.040
Superfund (net, after transfers)	1.166	1.332	1.217	1.207	1.207
- direct appropriations	1.265	1.390	1.275	1.165	1.265
-delayed obligation	—	—	—	.100	—
- transfers out from Superfund	-.098	-.058	-.058	-.058	-.058
Leaking Underground Storage Tank Trust Fund	.072	.073	.080	.073	.076
Oil spill response	.015	.016	.016	.016	.016
State and Tribal Assistance Grants (total)	3.835	3.121	3.602	3.814	3.897
State and tribal assistance	2.692	1.919	2.420	2.684	2.722
Categorical grants	1.143	1.203	1.182	1.130	1.175
Subtotal (EPA)	8.079	7.631	8.005	8.183	8.411

Source: H.Rept. 108-401.

Note: Columns may not add due to rounding. Amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

The estimated total national requirement for drinking water and wastewater facilities remains great. EPA's 1996 needs survey for clean water SRF monies estimated remaining needs at \$139.5 billion to \$200 billion through the year 2016, while sewerage agencies estimate funding needs may be as high as \$330 billion. A September 2002 EPA "Gap Analysis" estimates that \$390 million is needed over the next 20 years to replace and build wastewater facilities. The needs of small communities remain a special component of this problem.

Superfund

The future of EPA's Superfund program and its purpose of cleaning up toxic waste sites also remains an issue. The FY2004 budget request of \$1.332 billion was an increase of \$165 million (14%), compared to FY2003. The House passed \$1.217 billion and the Senate and conferees approved \$1.207 billion. There is concern over the ability of the declining Superfund Trust Fund, which is financed by chemical fees and other taxes, to finance any part of the program beyond FY2004. Needs for the program remain considerable according to a study by Resources for the Future (RFF) requested by appropriators. RFF projects that annual needs may range from \$1.7 billion to \$1.9 billion annually from FY2004 to FY2009. When its taxing authority expired on December 31, 1995, the fund balance was about \$4 billion, which has been steadily declining thereafter. The Superfund balance at the beginning of FY2004 was projected to be \$159 million, declining to around \$39 million by the end of FY2004.

In the past, the trust fund paid for the majority (often over 80%) of EPA's Superfund program activities for several years; in the current year, the fund supports about 50% of the program costs while the proposal for FY2004 anticipates the trust fund paying for about 13% of program costs. In future years, general appropriations may have to pay the majority, if not all, of program costs. Because of declining fund balances, the contribution of general revenues to the annual appropriation has increased in recent years, from \$250 million annually in FY1993 to FY1998, to about \$600 to \$700 million in FY2000 to FY2003 and \$1.1 billion in FY2004. Some have

criticized this fundamental change in policy, maintaining that it lessens the responsibility of polluters under the principle that the “polluter pays,” and instead socializes pollution costs across the economy, by funding them as costs to the general Treasury. Others dispute this, claiming that responsible parties continue to pay through negotiated cleanup settlements.

The two other major appropriation accounts would increase under both the budget and subsequent congressional actions. The account at the heart of EPA operations—the Environmental Programs and Management Account—had a requested increase of \$122 million, to a level of \$2.22 billion. The conferees approved \$2.294 billion, \$196 million more than provided in FY2003, and \$74 million more than requested. Also increasing under the plan, would be funding for the Science and Technology Account. The \$731 million request was \$16 million above current year funding; the conferees approved \$786 million.

For more detailed information on the Superfund, see CRS Issue Brief IB10114, *Brownfields and Superfund Issues in the 108th Congress* and CRS Report RL31410, *Superfund Taxes or General Revenues: Future Funding Options for the Superfund Program*. For information on wastewater treatment issues, see CRS Report 98-323, *Wastewater Treatment: Overview and Background*.

National Aeronautics and Space Administration

For FY2004, the National Aeronautics and Space Administration (NASA) requested \$15.469 billion, compared with its FY2003 appropriation of \$15.339 billion. P.L. 108-199 includes the requested amount for NASA, but funding for certain activities has been adjusted, and the entire NASA budget is subject to an across-the-board rescission of 0.59% (although none of the reductions specified in the conference report may be taken from the space shuttle program).

The consolidated appropriations act identifies \$319 million in cuts from the request: space station, -\$200 million; Space Launch Initiative, -\$70 million; Project Prometheus, -\$20 million; Polarimeter, -\$11 million; Beyond Einstein, -\$10 million; and Space Interferometer Mission, -\$8 million. A total of \$326.5 million in additions are identified, including at least \$50 million more than requested for aeronautics technology, and \$23 million for the EOSDIS Core System (part of the Earth Sciences program). The conference report does not link the additions to specific NASA subaccounts, so it is not possible here to specify what the funding is at the subaccount level (such as the Office of Space Science).

More details on NASA’s FY2004 budget are available in CRS Report RL31821, *The National Aeronautics and Space Administration’s FY2004 Budget Request: Description, Analysis, and Issues for Congress*, and CRS Report RS21430, *The National Aeronautics and Space Administration: Overview, FY2004 Budget in Brief, and Issues for Congress*.

On February 1, 2003, the space shuttle *Columbia* broke apart as it returned to Earth following a 16-day scientific mission in orbit. All seven astronauts aboard were killed. The shuttle fleet is grounded as NASA makes improvements to the system in response to the recommendations of the *Columbia* Accident Investigation Board (see CRS Report RS21408, *NASA’s Space Shuttle Columbia: Quick Facts and Issues for Congress*). The extent to which funding requirements for fixing the shuttle may impact other programs is not yet clear.

Changes to the FY2004 NASA Budget Structure

In its FY2004 request, NASA made significant changes to its budgeting, and care must be taken when comparing FY2004 to prior years. First, the FY2004 request reflects NASA’s shift to full cost accounting, where funding for each program includes the costs for personnel and facilities.

Previously, those costs were accounted for separately. The intent of full cost accounting is to show more accurately a program's total cost.

A consequence of this approach during the transition period, however, is to make it appear that funding for many programs has increased substantially. Glancing at NASA's FY2004 request, one might conclude, for example, that funding for the space shuttle increased more than \$700 million from a request of \$3.2 billion in FY2003, to a request of \$3.9 billion in FY2004. In fact, the FY2004 request is \$182 million higher than the FY2003 request. The remainder of the difference is due to inclusion of personnel and facilities costs that were included in the "Investments and Support" line in NASA's Human Space Flight budget last year. Throughout NASA's FY2004 budget request, comparisons between FY2003 and FY2004 can only be accomplished at aggregate levels.

A second significant change in FY2004 is different appropriations accounts. NASA has two accounts (not including the Inspector General, which is listed separately). Last year, the two accounts were Human Space Flight (HSF) and Science, Aeronautics, and Technology (SAT). The HSF account included funding for: space station; space shuttle; payload and Expendable Launch Vehicle support; space communications and data support; and safety, mission assurance, and engineering. SAT funding included: space science, earth science, biological and physical research, aerospace technology, and academic programs. This year, NASA revamped the budget structure to better reflect its priorities and activities. NASA is seeking to demonstrate that its mission is "Science, Aeronautics, and Exploration (SAE)," and that mission is supported by "Space Flight Capabilities (SFC)" such as a space station, space transportation (the space shuttle and expendable launch vehicles), space communications systems, and investing in new technologies. The following text reflects the new budget structure.

Table 13. National Aeronautics and Space Administration Appropriations, FY2000-FY2004

(budget authority in billions)

FY2000	FY2001	FY2002	FY2003	FY2004
\$13.60	\$14.29	\$14.90	\$15.34	\$15.47

Source: Figures for FY2000-FY2002 are from administration budget submissions of subsequent years; FY2003 and FY2004 are from H.Rept. 108-401. Actual final spending levels for any fiscal year include all supplemental appropriations or rescissions. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year.

Science, Aeronautics, and Exploration

This account contains funding for five subaccounts: the Offices of Space Science, Earth Science, Biological and Physical Research, and Education, and aeronautics technology (which are part of the Office of Aerospace Technologies, the rest of whose activities are funded in the Space Flight Capabilities account). The FY2004 request for the SAE account was \$7.661 billion; P.L. 108-199 provides \$7.929 billion (not adjusted for the rescission). The conference report identifies \$49 million in cuts to the request, and \$326.5 million in additions. As noted, the additions are not linked to specific SAE subaccounts, so totals at the subaccount level cannot be provided at this time.

Space Science

For FY2004, NASA requested \$4.007 billion for the Office of Space Science, compared with a FY2003 appropriations level of \$3.501 billion. In the FY2004 budget, the activities of the Office of Space Science are divided into five “themes” and the funding allocated as follows: Solar System Exploration, \$1.359 billion; Mars Exploration, \$570 million; Astronomical Search for Origins, \$877 million; Structure and Evolution of the Universe, \$432 million; and Sun-Earth Connections, \$770 million. Three projects being pursued by the Office of Space Science are receiving close attention: Project Prometheus, New Frontiers (the Pluto-Kuiper Belt mission), and the James Webb Space Telescope (JWST, formerly called the Next Generation Space Telescope).

Project Prometheus is an expansion of the Nuclear Systems Initiative (NSI) requested by NASA and approved by Congress in the FY2003 budget. Through NSI, NASA is developing new radioisotope thermoelectric generators (RTGs) that provide electrical power for spacecraft, and nuclear propulsion to propel spacecraft from Earth to other destinations. In the FY2004 budget, NASA requested permission to build a spacecraft, the Jupiter Icy Moons Orbiter (JIMO), that would make use of the new nuclear systems. JIMO’s mission would be to search for evidence of oceans on three moons of Jupiter: Europa, Ganymede, and Callisto. NASA combines NSI and JIMO into Project Prometheus. The cost estimate for Project Prometheus over the next five years (FY2004-2008) is \$3 billion (\$1 billion for NSI, plus \$2 billion for JIMO). JIMO would be launched in 2012-2013. The head of NASA’s space science program says the estimate through 2012 is \$8-9 billion, but cautions that the cost estimate is very preliminary. The House fully funded Project Prometheus after defeating (309-114) a Markey amendment that would have shifted \$114 million from Project Prometheus into the Superfund cleanup program at the Environmental Protection Agency. The Senate cut funding by \$20 million because Congress had appropriated an unrequested \$20 million for JIMO in the FY2003 budget. The conferees adopted the Senate position of cutting the project by \$20 million.

New Frontiers is a category of mid-sized planetary exploration projects costing approximately \$650 million each that was initiated in FY2003. NASA hopes to begin a new project within this category every three years. The first in the series is a probe to explore Pluto, the only planet not yet visited by a NASA spacecraft, and the Kuiper Belt, thought to be the “home” of some comets. In FY2003, Congress directed NASA to proceed with developing a Pluto-Kuiper Belt (PKB) mission as the first in its New Frontiers series and added \$95 million for it. NASA had planned to terminate PKB for cost reasons, but, as directed, is now proceeding with it, and requested \$130 million in FY2004. The House cut \$55 million from this project, while the Senate fully funded it. The conferees adopted the Senate position of full funding.

JWST is a space telescope currently expected to be launched in June 2010. The FY2004 request is \$254.6 million. The preliminary cost estimate for building it is \$1.6 billion. Some see JWST as a replacement for the Hubble Space Telescope, which was launched in 1990. Others consider it simply as the next in NASA’s series of orbiting observatories, but not necessarily a replacement for Hubble. Current plans call for Hubble to be retired at about the same time as JWST is launched, and NASA plans to fund JWST from the “funding wedge” created by the reduction in Hubble funding requirements.

NASA estimates that it costs approximately \$100 million per year for the periodic Hubble servicing missions by space shuttle crews. This linkage between funding for Hubble and funding for JWST is raising concern. Some supporters of Hubble, who apparently would like to see its mission extended, are concerned about the cost and schedule of JWST. A related concern is whether there will be a gap between the end of Hubble operations and the beginning of JWST

operations. The House cut JWST by \$20 million. The Senate fully funded it. The conferees adopted the Senate position.

Two other space science programs were cut by the conferees: the Space Interferometry Mission (SIM) was cut \$8 million from its \$80 million request, and Beyond Einstein was cut \$10 million from its \$59 million request. SIM is being designed to detect planets around other stars; Beyond Einstein is a series of spacecraft to study the structure and evolution of the universe.

Biological and Physical Research

NASA requested \$972.7 million in FY2004 for the Office of Biological and Physical Research (OBPR). For FY2003, Congress appropriated \$862.3 million. In the FY2004 request, OBPR is separated into three themes and the proposed funding allocated as follows: Biological Sciences Research, \$359 million; Physics Sciences Research, \$353 million; and Commercial Research and Support, \$261 million. OBPR conducts most of its research on the space shuttle and the space station. The House and Senate did not make any major changes to the request for OBPR, nor did the consolidated appropriations act.

Earth Science

NASA requested \$1.552 billion for Earth Science in FY2004. The FY2003 appropriation was \$1.708 billion. In the FY2004 request, Earth Science is divided into two themes and the proposed funding allocated as follows: Earth System Science, \$1.477 billion; Earth Science Applications, \$75 million. The House cut Earth Science Applications (wherein NASA works with other agencies in applying the results of its earth science research to national priorities) by \$13 million. The Senate cut \$15 million from Earth Science Applications. The conferees provided full funding for Earth Science Applications, but cut the Advanced Polarimeter Instrument by \$11 million (from \$26 million requested.) NASA is changing its earth science research strategy to conform with President Bush's new Climate Change Research Initiative, and wants to build the polarimeter to study factors other than carbon dioxide that may affect climate change as part of the new strategy. The conferees added \$23 million for the EOSDIS (Earth Observation System Data and Information System) Core System, although it is among the list of funding increases that are not specifically linked to a particular NASA subaccount.

Aeronautics

For FY2004, NASA requested \$959.1 million for Aeronautics Technology. A comparable figure (in full cost accounting) is not available for FY2003 appropriations. The shift to full cost accounting is particularly significant for the Aeronautics Technology theme, because it is a major user of facilities such as wind tunnels, which were previously budgeted under a separate account. The main issue for the Aeronautics Technology theme is its overall funding level. Funding for aeronautics R&D has been reduced significantly since its FY1998 peak of \$920 million (*not* expressed in full cost accounting terms).

The level of the FY2004 request and NASA's plans for further reductions in future years have proved contentious among congressional supporters of the program. Supporters argue that more R&D in this area is needed to maintain the health of the U.S. aviation industry and the international competitiveness of U.S. aircraft manufacturers. NASA states that future funding levels may increase from current plans as the result of collaborative efforts now being discussed among NASA, the Federal Aviation Administration, and other agencies with interests in aviation.

The House provided funding increases for Aeronautics Technology in several areas: \$1 million for aircraft engine research, \$1 million for small aircraft transportation systems (SATS), \$1.5 million for intelligent flight control systems, \$500,000 for development of a navigation aid (ARGUS), \$2 million for research on an aircraft surveillance system (ADS-B), and \$5 million for ground-based turbulence detection (Project SOCRATES). The Senate provided increases of \$15 million in each of three areas: future aircraft, especially supersonic flight; future aviation systems, especially aviation security and air traffic management; and technologies with direct application to military aircraft, as well as an increase of \$5 million to fund development of a five-year aeronautics research budget, to be prepared by March 1, 2004. The conferees agreed to fund all of those additions. Other additions for the Aeronautics Technology theme may be among the list of congressionally directed funding increases, but that cannot be definitively determined from the conference report.

Education

NASA requested \$169.8 million for the Office of Education. Congress appropriated \$202.2 million in FY2003. NASA's Administrator, Sean O'Keefe, has made education one of his priorities, elevating education to "enterprise" status within the agency and consolidating many of NASA's education activities into a single office.

One issue is whether NASA should continue its plans to launch "educator astronauts" on the space shuttle. The first educator astronaut already has been assigned to a shuttle mission, and NASA is in the process of selecting additional educators who will be fully trained as astronauts. The first educator astronaut, Barbara Morgan, was the back-up to "Teacher in Space" Christa McAuliffe who died during the space shuttle *Challenger* accident in 1986. Mrs. Morgan returned to teaching after the *Challenger* accident, but continued advocating the importance of educators in space, and was selected for NASA astronaut training in 1998. In the wake of the 2003 space shuttle *Columbia* accident, some may question the wisdom of launching individuals into space whose presence is not essential. One difference from the previous Teacher in Space program is that now the educators are fully trained as NASA astronauts rather than undergoing an abbreviated training regimen like Mrs. McAuliffe's.

Another issue is funding for the National Space Grant and Fellowship program. The House added \$6.225 million for it, bringing the program to a level of \$25.325 million for FY2004. The Senate did not specifically address the Space Grant program. The conferees state that, of the funding provided, \$25.325 million shall be for the Space Grant program. Some of the other congressionally directed funding additions in the bill may also come under this office, although it is not specified in the report on the bill.

Space Flight Capabilities

This new account in the FY2004 budget contains funding for the space station program, the space shuttle, and activities conducted by the Office of Aerospace Technology (OAT), with the exception of aeronautics (discussed above). Those OAT activities are now labeled "Crosscutting Technologies." The FY2004 request for the SFC account was \$7.782 billion; the consolidated appropriations act provides \$7.512 billion. The consolidated appropriations act identifies \$270 million in cuts, and no additions, to this account.

International Space Station (ISS)

The FY2004 budget request for the International Space Station (ISS) program is \$2.285 billion (\$1.707 billion under this budget category, plus \$578 million for space station research in the

Office of Biological and Physical Research in the SAE account). Some would add \$550 million that is in the FY2004 request for the Orbital Space Plane (OSP), which is being designed to take crews back and forth to the space station. NASA does not count OSP (see below) as part of the space station program, however, and this report will use the \$2.285 billion figure as the space station request. A comparable figure (in full cost accounting) is not available for FY2003 appropriations.

The space station is under construction in orbit and the facility has been permanently occupied by successive crews on four-six month shifts since November 2000. Construction is currently suspended while the U.S. space shuttle is grounded in the wake of the space shuttle *Columbia* accident, although NASA and its partners in the program—Europe, Canada, Japan, and Russia—have decided to continue maintaining crews aboard the station using Russian Soyuz spacecraft to take them back and forth on six-month schedules. The crew size has been reduced from three to two to lessen resupply requirements. Two ISS crew members (one Russian, one American) are currently on board. See CRS Issue Brief IB93017, *Space Station* for more on the space station program.

The House took no action on the space station program because it was awaiting the report of the *Columbia* Accident Investigation Board. The Senate cut the program by \$200 million. Conferees adopted the Senate position, explaining that cost reductions in FY2004 should be realized because construction is suspended due to the space shuttle *Columbia* tragedy.

Table 14. Appropriations: National Aeronautics and Space Administration, FY2003-FY2004 " \f D (budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Confer.
Human space flight	6.166	—	—	—	—
Space flight capabilities	—	7.782	7.806	7.582	7.512
Sci., aeronaut., technology	9.148	—	—	—	—
Sci., aeronaut., exploration	—	7.661	7.708	7.731	7.730
Inspector General	.025	.026	.026	.026	.027
Subtotal (NASA)	15.339	15.469	15.540	15.339	15.469

Source: H.Rept. 108-401. The FY2003 enacted figures do not reflect changes subsequently made by NASA as permitted in the appropriations act and reported in NASA's FY2003 operating plan.

Note: Columns may not add due to rounding. Amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

Space Shuttle

For FY2004, NASA requested \$3.968 billion for the shuttle program. As noted earlier, the space shuttle fleet is grounded as NASA makes improvements to the system following the space shuttle *Columbia* tragedy. NASA hopes to resume flights in 2004, but a firm date has not been set. The budgetary impact of fixing the shuttle is not yet known.

In November 2003, NASA released information showing a cost of \$60 million in FY2003, and an estimated cost of \$220 million in FY2004, for "return to flight" (RTF) activities that already have been initiated. NASA cautioned that the figures do not include reserves, and are only for items that have been approved for implementation. RTF elements still under evaluation and other RTF funding requirements are not included. For FY2003, Congress approved NASA's full request for

the shuttle and added \$50 million for the *Columbia* investigation and remedial actions. Another \$50 million (as a FY2003 supplemental) was included in the FY2004 Legislative Branch Appropriations act (P.L. 108-83). NASA earlier had estimated that, in FY2003, it would need \$152.5 million for Recovery and Investigation, and \$40 million for initial RTF activities (NASA took the \$40 million from its space science and aerospace technology accounts). The House made no changes to the space shuttle funding request, since it was awaiting the report of the *Columbia* Accident Investigation Board. The Senate provided full funding. The consolidated appropriations act provides full funding and stipulates that none of the reductions specified in the conference report should be taken against that activity.

The issues surrounding the shuttle program are complex, and are discussed in more detail in CRS Report RS21408, *NASA's Space Shuttle Columbia: Quick Facts and Issue for Congress*, and CRS Issue Brief IB93062, *Space Launch Vehicles: Government Activities, Commercial Competition, and Satellite Exports*.

Crosscutting Technologies

This new budget category represents funding for the activities of the Office of Aerospace Technology, except for aeronautics (discussed earlier). The FY2004 request for Crosscutting Technologies was \$1.673 billion. Crosscutting Technologies has three themes and the requested funding is allocated as follows: Space Launch Initiative, \$1.065 billion; Mission and Science Measurement Technologies, \$438 million; and Innovative Technology Transfer Partnerships, \$169 million.

The most controversial aspect of this part of the budget is the Space Launch Initiative (SLI), which was reformulated in an amendment to the FY2003 budget. Originally, it was focused on developing new technologies that were to lead to a NASA decision in 2006 on what new reusable space launch vehicle to build to replace the space shuttle. Now it is focused on building an Orbital Space Plane (OSP) to take crews back and forth to the space station as a complement to (not a replacement for) the shuttle, and the Next Generation Launch Technology (NGLT) program, which is developing technologies in anticipation of a decision in 2009 on what new reusable or expendable launch vehicle to build to take cargo into space. The House and Senate did not make any changes to funding for the SLI program, but the conferees cut \$70 million.

Significant questions have arisen about the OSP, in particular. In the aftermath of *Columbia*, NASA is evaluating whether it can accelerate by two years the schedule for the OSP, which was to have been ready by 2010 to bring crews back from the space station in an emergency (the “lifeboat” version), and by 2012 to take crews to the space station as well (the “crew transfer” version). NASA estimates that it would cost \$11-13 billion to build the lifeboat version of OSP by 2008. By contrast, NASA’s five-year budget plan (FY2004-2008) provides \$3.7 billion for OSP. A cost estimate for the complete crew transfer version is not yet available. Some Members of Congress have called on the Bush Administration to formulate a long-term strategy for the U.S. human space flight program before committing to such an expensive program that appears to have only one use—servicing ISS.

The House made no changes to the request for OSP while it awaited the reports of the *Columbia* Accident Investigation Board. The Senate fully funded OSP, but expressed a number of concerns about the program. The conferees said that they believe NASA should not release a final request for proposals (RFP) for the OSP until an ongoing interagency space policy review is completed and NASA determines that the RFP is consistent with that review. They also called on the President to assure Congress that, if NASA commits to building the OSP, sufficient budgetary resources are provided in the future. (NASA has, in fact, delayed release of the final RFP.)

Another issue in the SFC account was NASA's proposal in the FY2004 budget to terminate many of its technology transfer activities (under Innovative Technology Transfer Partnerships). NASA wanted to close its six Regional Technology Transfer Centers (RTTCs) in Los Angeles, CA; College Station, TX; Cleveland, OH; Newport News, VA; Westborough, MA; and Atlanta, GA. NASA also said it would discontinue its annual "Spinoff" books that provide examples of successfully commercialized NASA technology. The House added \$24 million to continue these activities. The Senate did not address the issue. The conferees directed NASA to spend \$24 million of the funds available under the SFC account for these activities, and to maintain the program as it existed in FY2003 and prior years.

National Science Foundation

The FY2004 request for the National Science Foundation (NSF) is \$5,481.2 million, a 3.2% (\$171.2 million) increase over the FY2003 level of \$5,310 million (see **Table 15**). The FY2004 request provides support for several interdependent priority areas: biocomplexity in the environment (\$99.8 million), information technology research (\$302.6 million), workforce for the 21st century (\$8.5 million), nanoscale science and engineering (\$249 million), mathematical sciences (\$89.1 million), and human and social dynamics (\$24.3 million).

The request provides the third installment of \$200 million for the President's Math and Science Partnerships program (MSP). The MSP is a five-year investment to improve the performance of U.S. students in science and mathematics at the precollege level. Additional FY2004 highlights include funding for graduate fellowships and traineeships (\$215 million), leading-edge research in cyber infrastructure (\$20 million), continued support of plant genome research (\$75 million), investments in Climate Change Research Initiative (\$25 million), added support for the administration and management portfolio (\$291.4 million), and funding for three to five new multi-disciplinary, multi-institutional Science of Learning Centers (\$20 million).

Research and Related Activities

Included in the FY2004 request is \$4,106.4 million for Research and Related Activities (R&RA), a 1.2% increase (\$49.9 million) over the FY2003 level of \$4,056.5 million. R&RA funds research projects, research facilities, and education and training activities. In the FY2004 request, the NSF has placed an emphasis on funding rates for new investigators and on increasing grant size and duration. Partly in response to concerns in the scientific community about the imbalance between support for the life sciences and the physical sciences, the FY2004 request provides increased funding for the physical sciences. Research in the physical sciences often leads to advances in other disciplines. The R&RA includes Integrative Activities (IA), created in FY1999. IA funds major research instrumentation, Science and Technology Centers, Science of Learning Centers, Partnerships for Innovation, disaster response research teams, and the Science and Technology Policy Institute. The FY2004 request for IA is \$132.5 million, a decrease of 9.7% from the FY2003 appropriation.

Research project support in the FY2004 request totals \$2,696 million. Support is provided to individuals and small groups conducting disciplinary and cross-disciplinary research. Included in the total for research projects is support for centers, proposed at \$411 million. NSF supports a variety of individual centers and center programs. The request provides \$45 million for Science and Technology Centers, \$57 million for Materials Centers, \$60 million for Engineering Research Centers, \$13 million for Physics Frontiers Centers, \$32 million for the Plant Genome Virtual Centers, and \$74 million for Information Technology Centers.

**Table 15. National Science Foundation Appropriations, FY2000 to FY2004 " f D
(budget authority in billions)**

FY2000	FY2001	FY2002	FY2003	FY2004
\$4.43	\$4.79	\$4.81	\$5.31	\$5.61

Source: Figures for FY2000-FY2002 are from administration budget submissions of subsequent years; FY2003 and FY2004 are from H.Rept. 108-401. Actual final spending levels for any fiscal year include all supplemental appropriations or rescissions. Final totals remain uncertain until all program experience has been recorded, a process that may not be completed for several months after the end of the fiscal year.

Major Research Equipment; Facilities Construction

The Major Research Equipment and Facilities Construction (MREFC) account is funded at \$202 million in FY2004, a 36.2% increase (\$54 million) over the FY2003 level. The MREFC supports the acquisition and construction of major research facilities and equipment that extend the boundaries of science, engineering, and technology. Seven projects are supported in this account for FY2004, all ongoing projects—construction of the Atacama Large Millimeter Array (\$51 million), the Network for Earthquake Engineering Simulation (\$8 million), the South Pole Station Modernization Project (\$1 million), Terascale Computing Systems (\$20 million), Earthscope (\$45 million), the High-Performance Instrumented Airborne Platform for Environmental Research, HIAPER, \$25.5 million), IceCube R&D project (\$60 million), and the National Ecological Observatory Network, Phase I (\$12 million).

The request proposes funding for three new start-up projects in FY2005 and FY2006. The proposed new starts are prioritized—Scientific Ocean Drilling in FY2005; Rare Symmetry Violating Processes in FY2006; and Ocean Observatories in FY2006. Authorization legislation included language requiring NSF to develop a clear and detailed process for funding large facility projects. For the first time, NSF must provide to Congress a rank ordering of all approved large facility construction projects and a discussion of how these projects were selected, approved, and prioritized.

**Table 16. Appropriations: National Science Foundation, FY2003-FY2004 " f D
(budget authority in billions)**

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Research, related activities	4.056	4.106	4.301	4.221	4.277
Major research equipment	.149	.202	.192	.150	.156
Education, human resources	.903	.938	.911	.976	.945
Salaries and expenses	.189	.226	.216	.226	.220
National Science Board	.003	—	.004	.004	.004
Office of Inspector General	.009	.009	.010	.010	.010
Subtotal (NSF)	5.310	5.481	5.634	5.586	5.611

Source: H.Rept. 108-401.

Note: May not add due to rounding. Amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

Education and Human Resources

The FY2004 request for the Education and Human Resources Directorate (EHR) is \$938 million, a 3.9% increase (\$34.9 million) over FY2003. Support at the various educational levels in the FY2004 request is as follows: precollege, \$346.9 million; undergraduate, \$180.7 million; and graduate, \$164.9 million. Support at the precollege level includes \$200 million for the MSP directed at funding for states and local school districts to join with colleges and universities to strengthen K-12 science and mathematics education. Support will continue for Systemic Reform Initiatives, Instructional Materials Development, Centers for Learning and Teaching, and Teacher Professional Continuum.

Efforts at the undergraduate level include the STEM Talent Expansion Program, the Robert Noyce Scholarship Program, and the National STEM Education Digital Library. Workforce for the 21st Century priority area is supported at the undergraduate level. It will focus on attracting students to the scientific and technical disciplines.

An increase in FY2004 for graduate level programs will allow NSF to raise the stipend of graduate fellows to \$30,000 and to increase the number of offers of new fellowships. Graduate Teaching Fellowships in K-12 Education will be increased to \$42.5 million. This program links the excellence of U.S. graduate education with the critical needs of school districts. Support for other graduate programs includes the Centers of Research Excellence in Science and Technology, Model Institutions for Excellence, and Alliances for Graduate Education and the Professoriate.

Funding for the Experimental Program to Stimulate Competitive Research (EPSCoR) is \$75 million in FY2004. An additional \$30 million from R&RA will support the three activities of EPSCoR—research infrastructure improvement, co-funding, and outreach. NSF estimates that the H-1B nonimmigrant petitioner fees collected in FY2003 will approximate \$92.5 million.

Other Independent Agencies

In addition to funding for VA, HUD, EPA, NASA and NSF, several other smaller “sundry independent agencies, boards, commissions, corporations, and offices” will receive their funding through the Act providing appropriations for VA, HUD, and Independent Agencies for the fiscal year that began October 1, 2003. **Table 16** lists appropriations for FY2003, and proposed levels for FY2004 for these agencies.

Agency for Toxic Substances and Disease Registry

This agency, which is placed in the Department of Health and Human Services (HHS), manages the Toxic Substances and Environmental Public Health program, which issues toxicological profiles of possible toxic substances. The Agency conducts health studies, evaluations, or other activities, using biomedical testing, clinical evaluations, and medical monitoring.

American Battle Monuments Commission

The commission is responsible for the construction and maintenance of memorials honoring Armed Forces battle achievements since 1917. Included among the commission’s functions are the maintenance of 24 American military cemeteries and 31 memorializations in 15 foreign countries, as well as three large memorials in the United States.

Cemeterial Expenses, Army

Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery are administered by the U.S. Army. By FY2002, 289,494 persons were interred/inurned in these cemeteries. In addition to 6,625 interments and inurnments estimated for FY2003, Arlington is the site of approximately 3,000 other ceremonies, and 4 million visitors, annually.

Chemical Safety and Hazard Investigation Board

The Board, which was authorized by the Clean Air Act Amendments of 1990, investigates hazardous substance spills or releases.

Community Development Financial Institutions Fund

The Community Development Financial Institutions (CDFI) Fund was created by P.L. 103-325. The purpose of the fund is to provide credit and investment capital to distressed urban and rural areas by investing in and supporting community-based organizations. The fund's programs also encourage banks and thrifts to expand their activities in distressed communities. The programs provide training and technical assistance to qualifying financial institutions. In addition, the fund administers the New Markets Tax Credit program created by P.L. 106-554. Through this program the fund allocates tax credits as part of an effort to expand incentives for business investment in low-income communities. P.L. 104-19 modified the original act by giving the Department of the Treasury the authority to manage the CDFI Fund, although the fund's programs continue to be funded through the VA/HUD bill. The CDFI Fund has survived despite attempts to eliminate it.

Consumer Product Safety Commission (CPSC)

The Commission is an independent regulatory agency charged with protecting the public from unreasonable product risk and to research and develop uniform safety standards for consumer products.

Corporation for National and Community Service (CNCS)

The Corporation administers programs authorized under the National and Community Service Act of 1990 (NCSA) and the Domestic Volunteer Service Act of 1973 (DVSA). The DVSA programs—e.g., Volunteers in Service to America (VISTA) and the Senior Volunteer Service Corps—are funded under the Labor/HHS Appropriation bill. Authorization for CNCS, and programs and activities authorized by NCSA, expired at the end of FY1996. Since then, continued program authority has occurred through the appropriations process.

In past Congresses, the key issue concerning the Corporation and the NCSA programs has been budgetary survival. Concerns expressed by some Members have included the issues of partisan activities, program costs, program management and federally funding a "paid volunteer" program. The House-passed FY2004 VA-HUD appropriations legislation contains NCSA funding for the first time since 1995.

The consolidated appropriations act approves \$444 million for AmeriCorps Grants *and* the National Service Trust, which funds educational awards for member in AmeriCorps Grants, the National Civilian Community Corps (NCCC), VISTA, and the Education Awards Program. This is a 63% increase over FY2003 funding for these two areas, a 25% increase over House-passed funding, a 31% increase over Senate-passed funding, and a 2% increase over the President's request for FY2004. The consolidated appropriations act appropriates \$584 million for all NCSA

programs, which is a 26% increase over FY2003 funding⁴, a 18% increase over House-passed funding, a 17 % increase over Senate-passed funding, and 2% decrease from the President's request for FY2004.

For further information on the Corporation and its programs see: CRS Report RL30186, *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs*, and CRS Report RS20420, *AmeriCorps and Other Service Programs: Description and Funding Levels*.

Council on Environmental Quality; Office of Environmental Quality

These two entities are within the Executive Office of the President. The council oversees and coordinates interagency decisions in matters affecting the environment; the office provides the professional and administrative staff for the Council.

U.S. Court of Appeals for Veterans Claims

The U.S. Court of Appeals for Veterans Claims has exclusive jurisdiction to review decisions of the Board of Veterans' Appeals, and has the authority to decide relevant conflicts in the interpretation of law by VA and the Board of Veterans' Appeals. The court's decisions constitute precedent to guide subsequent decisions by that board.

Federal Citizen Information Center (FCIC)

The center, administered through the General Services Administration (GSA), helps federal agencies distribute consumer information and promotes public awareness of existing federal publications through publication of the quarterly *Consumer Information Catalogue*, and the *Consumer's Action Handbook*.

Federal Deposit Insurance Corporation

The FDIC's Office of the Inspector General is funded from deposit insurance funds, and has no direct support from federal taxpayers. Before FY1998, the amount was approved by the FDIC Board of Directors; the amount is now directly appropriated to ensure the independence of the IG office.

Interagency Council on the Homeless

The Interagency Council on the Homeless (ICH) is an independent agency established by the McKinney-Vento Homeless Assistance Act of 1987, to oversee the efforts of federal agencies and others involved in addressing the issues of homelessness.

National Credit Union Administration (NCUA)

The NCUA is an independent federal agency that charters, insures, and regulates credit unions. It is funded entirely by those institutions. The Community Development Revolving Loan Fund

⁴ This increase is based on an appropriation for FY2003 of \$432 million, which does not take into account a \$48 million rescission of unobligated funds appropriated during FY2002 and prior years contained in P.L. 108-7 or a supplemental of up to \$64 million included in P.L. 108-11 to liquidate trust fund obligations incurred by the corporation previous to FY2003.

(CDRLF) is administered by the National Credit Union Administration. The fund makes low-interest loans and technical assistance grants to low-income credit unions.

The Central Liquidity Facility (CLF) is a mixed ownership government corporation managed by the National Credit Union Administration. The CLF was established to improve the general financial stability of credit unions by serving as a lender of last resort to credit unions experiencing unusual or unexpected liquidity shortfalls. The CLF can finance loans using its assets and it can also borrow from the Federal Financing Bank to meet liquidity demands. The borrowing limit is specified by language in the VA-HUD appropriations bill. Congress also determines the level of CLF operating expenses, which are not funded through appropriations but by earned income.

Table 17. Appropriations: Other Independent Agencies, FY2003-FY2004 " \f D (budget authority in billions)

Program	FY2003 enacted	FY2004 request	FY2004 House	FY2004 Senate	FY2004 Conf.
Agency for Toxic Substances and Disease Registry	.082	.073	.073	.073	.073
American Battle Monuments Commission	.035	.032	.047	.035	.041
Chem. Safety and Hazard Investigations Board	.006	.008	.009	.008	.009
Cemetery Expenses, Army	.032	.026	.026	.032	.029
Community Development Financial Institutions	.075	.051	.051	.070	.061
Consumer Product Safety Comm.	.057	.060	.060	.060	.060
Corporation for National and Community Service	.384	.598 ^a	.480	.484	.584
Council, Environ. Quality; Office, Environ. Quality	.003	.003	.003	.003	.003
Court of Appeals, Veterans Claims	.014	.016	.016	.016	.016
Fed. Citizen Inform. Center	.011	.018	.013	.014	.014
<i>Federal Deposit Insurance Corporation (transfer)</i>	<i>(.031)</i>	<i>(.030)</i>	<i>(.030)</i>	<i>(.031)</i>	<i>(.030)</i>
Interagency Council on Homeless	.001	—	.002	.002	.002
National Credit Union Admin.	.001	.001	.001	.002	.001
National Institute, Environmental Health Sciences	.084	.079	.080	.079	.079
Neighborhood Reinvestment Corp.	.104	.115	.115	.115	.115
Office, Science & Tech.	.005	.007	.007	.007	.007
Selective Service System	.026	.028	.028	.026	.026
Subtotal: Other agencies	0.920	1.115	1.011	1.026	1.12

Source: H.Rept. 108-401.

Note: Totals may not add due to rounding. Amounts do not include effects of the .59% across-the-board reduction in most discretionary accounts, as called for in P.L. 108-199.

- a. This figure includes a \$48 million rescission of unobligated funds appropriated during FY2002 and prior years, enacted as part of the FY2003 appropriations bill (P.L. 108-7). It does not include up to \$64 million in supplemental appropriations (P.L. 108-11) to the National Service Trust to liquidate obligations previously incurred by the corporation.

National Institute of Environmental Health Sciences

This Institute is within the National Institutes of Health, administered by the Department of Health and Human Services (HHS).

Neighborhood Reinvestment Corporation (NRC)

The NRC leverages funds for reinvestment in older neighborhoods through community-based organizations called Neighbor Works. Among projects supported by NRC financing are lending activities for home ownership of low-income families. Nationwide, there are 184 of these organizations, serving 825 communities in 45 states, with 70% of the people served living in very low and low-income brackets.

Office of Science and Technology Policy

The Office of Science and Technology Policy coordinates science and technology policy for the White House. The office provides scientific and technological information, analysis and advice to the President and the executive branch, and reviews and participates in the formulation of national policies affecting those areas.

Selective Service System (SSS)

The SSS was created to supply manpower to the U.S. Armed Forces during time of national emergency. Although , the Armed Forces have recruited personnel through voluntary enlistment incentives since 1973 the SSS remains the primary vehicle for conscription should it become necessary. In 1987, the SSS was given the task of developing a post-mobilization health care system that would assist with providing the Armed Forces with health care personnel in time of emergency.

Selected World Wide Web Sites

Federal Citizen Information Center (FCIC)

<http://www.pueblo.gsa.gov> and <http://www.info.gov/>

Environmental Protection Agency (EPA), Summary and Justification of Budget

<http://www.epa.gov/ocfopage/>

Corporation for National and Community Service

<http://www.cns.gov/>

Department of Housing and Urban Development (HUD)

<http://www.hud.gov>

Federal Emergency Management Agency (FEMA)

<http://www.fema.gov>

National Aeronautics and Space Administration (NASA)

<http://www.hq.nasa.gov>

National Science Foundation (NSF)

<http://www.nsf.gov>

Office of Management and Budget (OMB)

<http://www.whitehouse.gov/omb/>

Department of Veterans Affairs (VA).

<http://www.va.gov>

Additional Reading

CRS Report RL32062, *Housing Issues in the 108th Congress*, by E. Richard Bourdon.

CRS Report RL30486. *Housing the Poor: Federal Programs for Low-Income Families*, by Morton J. Schussheim.

CRS Report RL31930. *The Housing Choice Voucher Program: Background, Funding, and Issues in the 108th Congress*, by Maggie McCarty.

CRS Report RS20704. *Housing Opportunities for Persons with AIDS (HOPWA)*, by Maggie McCarty.

CRS Report RL30442. *Homelessness: Recent Statistics, Targeted Federal Programs, and Recent Legislation*, by M. Ann Wolfe; updated by Maggie McCarty and Christopher E. Carter.

CRS Issue Brief IB10114. *Brownfields and Superfund Issues in the 108th Congress*, by Mark Reisch.

CRS Issue Brief IB10108. *Clean Water Act Issues in the 108th Congress*, by Claudia Copeland.

CRS Issue Brief IB10125. *The Environmental Protection Agency's FY2004 Budget*, by Martin R. Lee.

CRS Report 95-307. *U.S. National Science Foundation: An Overview*, by Christine M. Matthews.

CRS Report RL30186. *Community Service: A Description of AmeriCorps, Foster Grandparents, and Other Federally Funded Programs*, by Ann M. Lordeman and Alice D. Butler.

Extra stuff:

Order Code RL31804

The annual consideration of appropriations bills (regular, continuing, and supplemental) by Congress is part of a complex set of budget processes that also encompasses the consideration of budget resolutions, revenue and debt-limit legislation, other spending measures, and reconciliation bills. In addition, the operation of programs and the spending of appropriated funds are subject to constraints established in authorizing statutes. Congressional action on the budget for a fiscal year usually begins following the submission of the President's budget at the beginning of the session. Congressional practices governing the consideration of appropriations and other budgetary measures are rooted in the Constitution, the standing rules of the House and Senate, and statutes, such as the Congressional Budget and Impoundment Control Act of 1974.

This report is a guide to one of the 13 regular appropriations bills that Congress considers each year. It is designed to supplement the information provided by the House and Senate Appropriations Subcommittees on VA, HUD, and Independent Agencies. It summarizes the status of the bill, its scope, major issues, funding levels, and related congressional activity, and is updated as events warrant. The report lists the key CRS staff relevant to the issues covered and related CRS products.

NOTE: A Web version of this document with active links is available to congressional staff upon request at <http://www.crs.gov/products/appropriations/apppage.shtml>.

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